International Monetary Fund

Senegal and the IMF

Press Release:
IMF Executive Board Completes Third and Fourth Reviews Under Senegal's PRGF Arrangement and Approves US$20.0 Million Disbursement
January 10, 2006

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Senegal: Letter of Intent and Memorandum of Economic and Financial Policies

December 29, 2005

Dakar, Senegal
December 29, 2005

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

Dear Mr. de Rato,

1. On April 28, 2003, the Executive Board of the International Monetary Fund 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 two reviews under this arrangement were completed on February 13, 2004 and March 8, 2005. The attached memorandum on economic and financial policies reviews the macroeconomic and financial performance and the implementation of economic policies in 2005. It also describes the economic policies and structural reforms that the government of Senegal will pursue in 2006.

2. As stated in paragraphs 4 and 5 of the memorandum, 11 of the 12 program's quantitative performance criteria at end-March 2005—the test date for the third review—and 8 of the 10 quantitative performance criteria at end-September 2005—the test date for the fourth and final review—were met. However, owing to the rapid increase in oil prices in 2005, the financial situation of the electricity company SENELEC deteriorated and two continuous performance criteria (the ceiling on arrears of the company, and the ceiling on budgetary transfers to the company) were missed. The ceiling on no-bid contracts at end-September was also exceeded as extraordinary provisions of the Procurement Code were used in the case of a few large contracts of a strategic nature (paragraph 9 of the memorandum). The structural PC on elimination of a specific tax on vegetable oil was respected in December 2005.

3. The government has implemented a number of corrective measures and will implement others, as described in paragraphs 7 and 9 of the memorandum, to ensure that these problems do not arise in the future. Owing to the exceptional circumstances which have weakened the financial position of SENELEC and the reasons which led to the use of extraordinary procurement practices, and in view of the remedial actions already taken and planned, the government of Senegal requests a waiver for the nonobservance of these three performance criteria.

4. The government of Senegal believes that the policies and measures set forth in the attached memorandum 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—at its own initiative or whenever the Managing Director requests such a consultation—before the adoption of any such measures and in advance of any changes to the policies described in the attached memorandum.

5. 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 third and fourth reviews as well as the disbursement of the fourth and fifth loans under the current arrangement in an amount equivalent to SDR 13.86 million.

6. On the expiry of the current arrangement on April 27, 2006, the government of Senegal would like to continue its close collaboration with the Fund, through a nonfinancial arrangement, focusing on accelerating growth, reducing poverty and deepening fiscal and financial sector reforms.

7. The government of Senegal consents to the publication of this letter, the memorandum of economic and financial policies, and the report of Fund staff on the third and fourth reviews of the program.

Sincerely yours,

/s/

Abdoulaye Diop
Minister of State, Minister of Economy
and Finance

Attachment: Memorandum of Economic and Financial Policies for 2006 of Senegal

SENEGAL

Memorandum of Economic and Financial Policies for 2006

Dakar, December 29, 2005

1. In its letter of February 4, 2005 to the Managing Director of the International Monetary Fund (IMF) and in the memorandum attached thereto, the government of Senegal defined its economic and financial objectives for 2005, as well as the measures it intended to implement to achieve them. In this memorandum, the government outlines the results achieved in 2005, its analysis of the deviations observed between projected and actual performance, and the measures it intends to implement in 2006 to achieve its objectives.

I. Measures Implemented and Results Achieved in 2005

2. Real GDP growth in 2005 is estimated at 5.1 percent, about 1.3 percent lower than programmed due to the unexpected increase in the price of oil. Growth was driven by recovery of grain production from the decline in 2004 owing to a locust invasion, expansion of construction and public works, and dynamic performance of the telecommunications sector. The consumer price index is estimated to have increased by about 2 percent on an average annual basis, reflecting mainly higher oil prices and the increase in food prices. As a result of the rise in value of petroleum imports, the external current account deficit is expected to increase by about 1 percent of GDP (to 7.6 percent of GDP) rather than narrow (to about 5.5 percent of GDP) as programmed.

3. The overall fiscal deficit in 2005 will remain at 3.5 percent of GDP (0.2 percent of GDP more than in 2004), while the basic fiscal surplus will increase slightly (by 0.1 percent of GDP). Strong revenue performance has made it possible to accommodate an increase in the allocation for priority sectors in the supplementary budget, transfers to SENELEC and SAR for the losses incurred as a result of higher oil prices, and the wage bill associated with the finalization of the recruitment program.

4. At end-March 2005, 11 of the 12 performance criteria were hit (Table 1). The continuous performance criterion on the absence of arrears of the electricity company was breached for reasons explained below (paragraph 6). Only half of the six quantitative indicative targets were achieved. The wage bill exceeded the target by CFAF 2.7 billion (less than 0.1 percent of GDP) as delays in recruitment during the last quarter of 2004 were rectified. The expenditures executed under exceptional procedures exceeded the program ceiling, as the treasury experienced difficulties to process the higher than usual volume of payment orders associated with the decentralization of the expenditure process to four ministries. The balance for treasury correspondent accounts was also above the program ceiling, reflecting an accumulation of deposits by some public entities.

5. At end-September 2005, 2 of the 10 quantitative performance criteria were missed (the continuous ceiling on arrears of the electricity company and the ceiling on no-bid public contracts) for reasons explained below (paragraphs 6 and 9). The same three quantitative indicative targets which were missed in March were again exceeded in September (Table 1). In December 2005, a third performance criterion was missed when the ceiling on the budgetary transfers to SENELEC (continuous PC) was exceeded.

6. The surge in oil prices in 2005 and the reduction by 5 percent and the freezing of electricity prices in July 2004 led to a significant deterioration in SENELEC's financial situation. The company experienced difficulties in meeting obligations toward its suppliers and accumulated arrears on interest charges for overdue payment with one of its supplier (CFAF 1 billion at mid-December 2005). Under current regulation, SENELEC is entitled to budgetary transfers estimated at CFAF 16 billion by the Electricity Sector Regulation Commission (CRSE).

7. In order to improve SENELEC's financial situation, the government first froze the price of the fuel purchased by the company from the refining company (SAR) during July–October 2005, creating the need for a transfer of CFAF 3.8 billion to SAR. In addition, electricity prices will be gradually increased according to a new electricity price formula compatible with the operator's profitability adopted in October 2005. Application of the new formula would entail a 15 percent increase in electricity prices retroactive to January 1, 2005. As a first step, electricity prices were raised by 10 percent on November 1, 2005, and will be further raised in order to fully apply the new price formula by the end of 2006. These adjustments will not be passed on fully to low-income subscribers. If prices are not adjusted in 2006 as required by the formula, CRSE has estimated that the budgetary transfer due to SENELEC would amount to CFAF 37 billion, an amount which could be reduced by about CFAF 9 billion provided two new more efficient power plants come on stream in 2006. SENELEC has signed a memorandum of understanding with its supplier to pay all its arrears before the end of the year.

8. Owing to the exceptional circumstances which have weakened the financial position of SENELEC and in view of the strong remedial actions explained above (paragraph 7), the government requests a waiver for the nonobservance of the performance criteria on the arrears of and the budgetary transfers to SENELEC.

9. The government also requests a waiver for the nonobservance of the ceiling on no-bid contracts. This ceiling was exceeded owing to a few large no-bid contracts for the production of digitized identification cards for the next election and military equipment, the strategic nature of which prevented recourse to the usual tender procedures. However, the government recognizes that the excessive use of no-bid contracts is a recurrent problem. In order to limit the recourse to such contracts, the government will implement four remedial actions:

- First, in order to ensure better planning for procurement, each ministry will be required to send procurement plans for 2006 to CNCA (Advisory Commission on

Public Contracts) by the end of 2005. Ministries that do not comply will be subject to sanctions.

- Second, a revised legal framework for procurement, including the Code of state financial obligations and a procurement code—both prepared with World Bank assistance—will be submitted for parliamentary approval by April 2006. The new framework will strictly limit the conditions under which noncompetitive bids can be approved.

- Third, two new institutions, the Directorate for Public Procurement and the Advisory and Regulatory Authority for Public Procurement, will be set up to enforce the implementation of the revised legal framework.

- Fourth, procurement contracts will be audited every year, with a special emphasis on no-bid contracts. The government will publish these audits, starting in December 2005 with that of the 2003 procurement contracts, and the competent authorities will evaluate the report and propose specific corrective measures, including sanctions.

10. Although two structural benchmarks in the area of fiscal transparency and public expenditure management (PEM) (reports on taxes due and collected and on budget execution) were met with delay, and one structural benchmark (improvement of the transparency of government's table on financial operations) was not observed (Table 2), the government implemented a series of measures that improved tax collection and strengthened PEM. In particular, the government has strengthened the Directorate General of Taxes and Property (DGID) through the recruitment of about 100 staff.

11. To better monitor public finance data, the government has decided to adopt the WAEMU TOFE when the relevant directive under discussion will have been adopted. In the meantime, starting with the TOFE for October 2005, the presentation of the table will be improved as described in the following box (prior action). The provisional monthly tables for January to September 2005 have been produced based on the consolidated monthly treasury balances, with a 60-day lag.

Methodological Changes to the Table of Government Financial Operations

The methodology to report fiscal data will be changed to provide a more accurate assessment of fiscal performance, and a more precise definition of bank and nonbank financing. The new format of the Table of Government Financial Operations (TOFE) brings it closer to the WAEMU TOFE, which expands the coverage of fiscal statistics to local governments and autonomous public entities. The changes are the following:

- **Elimination of the line "Treasury Special and CorrespondentAccounts."** [1] The accumulation of deposits of Correspondent Accounts at the Treasury was previously recorded above the line as negative expenditures. This did not conform to international accounting practices and created distortions. In the new presentation, only those public sector entities whose entire operations (revenue and expenditure) pass through the treasury accounts have been maintained above the line.

- **Introduction of the "balance of selected public sector entities" line.** This new line in the TOFE, captures the deficit or surplus of three type of institutions: (i) local governments, (ii) autonomous public sector entities (e.g., hospitals, universities), and (iii) the Social Security Fund for civil servants (FNR). Movements in all the other correspondent accounts have been classified as nonbank financing, in accordance with the WAEMU TOFE.

- **Revision of the net credit to the government (NCG) series.** This series, reported below the line in the TOFE, will be corrected to ensure that its institutional coverage corresponds to the scope of government reflected above the line in the TOFE. This correction will create a difference between the change in the NCG reported in the TOFE and that in the monetary accounts. The latter, reported by the BCEAO, includes public sector agencies whose operations do not have a counterpart "above the line" in the TOFE. The changes in government deposits that do not have a counterpart in the TOFE are listed as a memorandum item. Thus the difference between the TOFE and BCEAO statistics can easily be reconstructed.

[1] Correspondent Accounts are a series of heterogeneous deposit accounts that local governments, autonomous agencies, Social Security Funds, spending ministries, and even private companies and individuals hold at the treasury, which plays the role of a bank.

12. A number of important steps have been taken to strengthen public expenditure management. Starting with the 2005 budget, a single budget document, containing both current and capital expenditures, was prepared using a harmonized nomenclature. The government issued an administrative order in September 2005, establishing December as a deadline for payment orders (*ordonnancements*), with exceptions strictly limited to expenditure included in the supplementary budget law.

13. The privatization of SONACOS was completed with the final transfer of assets in March 2005. The specific tax (*taxe spécifique*) was eliminated in December 2005 (performance criterion). However, in view of the strong increase in vegetable oil imports since 2004, which has weakened SONACOS' financial situation and threatened its ability to buy the groundnut crop, parliament adopted a law imposing import duties of 25 percent on palm oil imports and 15 percent on other vegetable oil imports for a temporary period of up to 6 years. The government commits to ensuring that the imposition of these new taxes is in line with the emergency safeguard clauses in the World Trade Organization (WTO) and WAEMU treaties, within the deadline prescribed by these treaties.

14. The PRSP process has continued to improve health and education outcomes and reduce poverty. According to the second PRSP progress report published in June 2005, the incidence of poverty is estimated to have been further reduced from about 57 percent in 2001 to 54 percent in 2004. The allocation of spending toward health and education continued to improve, reaching about 33 percent of total spending and 8 percent of GDP in 2004. These increased resources have led to better outcomes. For example, there have been increases in gross enrollment in primary schools from 77 percent in 2003 to 80 percent in 2004, and in the DTC3 immunization coverage from 59 percent in 2003 to 75 percent in 2004.

II. Government Program for 2006

15. The macroeconomic outlook for 2006 is broadly favorable. Real GDP growth is projected at about 5 percent, reflecting continued robust expansion in all sectors as in 2005, despite an increase in the average price of oil. Annual average inflation, measured by the GDP deflator, is expected to edge up to about 2.5 percent, reflecting mainly higher oil prices and the increase in electricity prices. Although the rise in value of petroleum imports will weigh on the trade deficit, strong private remittances will help maintain the external current account deficit at about 7.6 percent of GDP.

A. Public Finances

16. The government's fiscal policy will remain prudent in 2006. The overall fiscal deficit, including grants is expected to increase from 3.5 percent of GDP in 2005 to 4 percent of GDP in 2006, while the basic balance (program definition) will deteriorate by about 1 percent of GDP. This deterioration is explained mainly by higher capital expenditures, the postponement to 2006 of the cost of some structural reforms (especially the recapitalization of the postal agency), and some revenue losses associated with the reduction of the corporate income tax. At the same time, the growth of domestically financed public investment will be

gradual and will take into account absorptive capacity. In order to improve the efficiency of investment projects, the government will also enhance investment planning, monitoring, and evaluation based on the recommendations of the World Bank's 2005 Public Expenditure Review.

17. The government will maintain an attractive fiscal environment for private sector development. To this end, the corporate income tax will be reduced from 33 percent to 25 percent, effective from January 2006, causing a likely revenue loss of approximately CFAF 19 billion a year. The equalization tax (a special sales tax) will be eliminated in 2007, generating a revenue loss estimated at CFAF 9 billion.

18. The government expects substantial additional revenue from the sale of its minority stake in the telecommunications company SONATEL, the renegotiation of an existing mobile phone license, and the issuance of a new mobile phone license. Senegal's qualification for the MDRI will also free additional resources for priority needs, which will be identified in the new Poverty Reduction Strategy Paper (PRSP) under preparation. The allocation of resources from MDRI will be decided after consultation with Fund staff. A supplementary budget will be presented to parliament in 2006 to account for all resources generated from the telecom sector and debt relief.

19. All resources that may be received within the framework of the Millennium Challenge Account program and the preparation of the summit of the Organization of Islamic Countries are not reflected in the 2006 budget. The amounts and procedures for spending these resources are still not known. In the interest of strengthening fiscal discipline and transparency, the 2006 supplementary budget law will present the external funds made available to the government and all of its agencies, to finance any expenditure associated with these initiatives.

20. To improve the efficiency of tax administration, the government will install a software at the treasury to render the data-sharing system between the three tax collecting agencies fully operational by March 2006. The government will assess the feasibility of transferring direct tax collection responsibilities to the General Directorate for Tax Collection (DGID). The tax management system software SIGTAS will be installed at the large enterprises unit in 2006.

21. The government has prepared an action plan to enhance budgetary transparency (Annex I) in line with the recommendations of the fiscal module of the Report on Observance of Standards and Codes (ROSC), and consistent with the CFAA and CPAR recommendations. The government will strengthen the legal and institutional environment in which various government funds and agencies operate. In particular, it will ensure that agencies follow regular budgetary rules and will set up a system of financial audits for the agencies to enhance transparency regarding financial risks for the government. A comprehensive list of agencies and the budgetary transfers made to them, either directly or through the budget allocations for spending ministries, have been clearly identified in the 2006 budget documentation and will continue to be presented in future budget laws. The

government will extend the computerized system of monitoring budget execution (SIGFIP) to the final payment phase in 2006, making it possible to produce monthly reports on budget execution by major spending lines until the final payment stage.

22. The government will further strengthen budgetary control procedures. External audits of the government's end-year treasury accounts by the Audit Court will continue, and parliamentary examination of budget review laws will be strengthened. The 2004 end-year treasury accounts and draft budget review laws for 2003–04 will be submitted to the Audit Court by, respectively, end-March and end-June 2006. The capacity of the Audit Court will be enhanced to speed up examination of budget review laws and permit submission to the National Assembly within the timeframe specified by WAEMU directives. Resources allocated to the Audit Court (for current and capital expenditures) will be increased in 2006–07 to enable it, in particular, to recruit 27 new magistrates.

B. Implementation of the Airport Project

23. The government has reaffirmed its determination to build the new Blaise Diagne International Airport, the potential benefits of which will be reinforced by the implementation of the toll road and the Diamniadio industrial platform projects. The World Bank has expressed a favorable opinion on certain aspects of the project's viability but has highlighted several important issues that need to be analyzed in depth and resolved before implementation starts. The government commits to finding satisfactory answers to these questions with the World Bank's assistance. Before construction begins, the government will seek the independent and expert opinion of the Council on Infrastructure about the project, and submit it to parliament for its advice. The government will take the results of these deliberations into account in implementing the project.

24. The following measures apply to the implementation of the project:

- An Investment and Operation Company (SIE) will be created, in which the government will hold a 49 percent stake. The government's contribution to the capital of the company will consist of land and will be provided in accordance with company law. The private partner(s) in the airport will hold 51 percent of the capital.

- The company will finance the airport through a loan, which will be reimbursed with the receipts from the Airport Infrastructure Development Tax (RDIA).

- The authorities will publish the annual accounts of the SIE, approved and audited according to international standards, on the external website of the Ministry of Economy and Finance by end-July of the year following the SIE's fiscal year. These accounts will also be forwarded to the parliamentary commission on public works.

- The government will draw up a contract with the SIE, the provisions of which will minimize the risks of the project for public finances. Fund and World Bank staff will receive a copy before the contract is signed, and be given an opportunity to evaluate the distribution of risks and financing related to the project. Based on the results of that analysis, the financial flows and the contingent liabilities related to the project will be reflected in the Table of Government Financial Operations (TOFE) and in other fiscal tables as necessary. This contract will set out the procedures governing the use of RDIA revenue for implementation of the project.

- The revenue generated by the RDIA since its introduction on April 1, 2005 will be collected by the International Air Transport Association (IATA). All RDIA revenue will be collected and used in accordance with the procedures defined in Annex II. A decree was adopted to that end (prior action for the third and fourth reviews).

- IATA will be asked to send a report to the Minister of Finance by the end of each month containing full information on: (i) the amount of the funds collected by IATA for the benefit of Senegal directly or through the Administration des Activités Aéronautiques du Sénégal (AAANS) in the previous month and cumulatively since April 1, 2005; (ii) the amount of funds transferred to the SIE and its banks, to the government, or to third parties during the previous month and cumulatively since the first inception of transfers; and (iii) the remaining Senegalese funds held by IATA.

C. Financial Sector Reform

25. The government will continue to encourage the development of the financial system and strengthen its supervision. An action plan was prepared for this purpose following broad consultations in 2003 between the government, the private sector, the banking community, and the other financial institutions, and reflecting the recommendations of the Financial Sector Assessment Program (FSAP) report. The priority measures of the plan are presented in Annex III. These measures are intended to, inter alia (i) enhance the soundness of banks, which remains broadly satisfactory, although risk concentration is still the main source of vulnerability in this area; (ii) implement an appropriate legal framework and simplified procedures for the seizure of collateral, by end-December 2005; and (iii) encourage the preparation of certified financial statements by small- and medium-sized enterprises to facilitate their access to credit. The government will take the necessary steps to implement measures under the action plan at the national level, and has already brought those necessitating a decision at the regional level to the attention of the president of the WAEMU’s Council of Ministers.

D. External Debt Policy

26. The government will not contract or guarantee any foreign loans on nonconcessional terms (as defined in the TMU of February 4, 2005) and will not accumulate any arrears. The provisions regarding prior authorization by the Minister of Finance for any foreign borrowing by public entities, as defined in the November 24, 2003 directive of the Prime Minister, will continue to be strictly enforced.

E. Public Enterprises

27. To prevent any adverse consequences on public finances and the economy, the government will continue to strengthen its supervision of the financial situation of public enterprises. The government portfolio management and control unit will be strengthened in order to produce a semiannual report outlining: (i) the level of external and domestic debt of the enterprises in which the government has a stake of at least 45 percent; (ii) the expected new borrowing of these enterprises; (iii) the level of any contingent liabilities arising from the activities of these enterprises; and (iv) the risk to the government of operations related to public/private partnerships. The report on the first half of 2005 will be available in January 2006.

28. Industries Chimiques du Sénégal (ICS), in which the government owns 47 percent of the capital, is in a delicate financial situation and will be monitored closely by the government portfolio management and control unit. In order to resolve its financial problems, private shareholders will recapitalize the company.

F. Accelerated Growth Strategy and Poverty Reduction Strategy Paper

29. Senegal is committed to achieving the Millennium Development Goals and this objective is clearly reflected in its Poverty Reduction Strategy Paper (PRSP). To that end, the government's growth and development objectives underlying its economic and financial program for 2003–2005 were based on the guidelines specified in the PRSP.

30. To accelerate growth and meet substantial demand for social services, the government has launched deliberations on an Accelerated Growth Strategy (SCA), which aims to increase the average real GDP growth rate to more than 7 percent per annum. In January 2005, a list of five economic activities with substantial growth potential, labor intensity, and external competitiveness was drawn up. These include agriculture and agro-industries, fishing and fishing industries, tourism-art crafts, and cultural industries, textile and clothing industries, and electronic customer support services. In consultation with the public and private sectors, action plans to promote development in these sectors are being prepared for removing constraints to growth. The objective is to start the implementation of the SCA in June 2006.

31. The process of updating the PRSP also began in early 2005 and will be completed by the beginning of 2006. The revised PRSP, with which the SCA action plan will be aligned, will reflect the new priorities, particularly the development of infrastructures, including those in the secondary cities, and enhanced urban mobility in Dakar. It will draw on the conclusions of the first and second PRSP annual progress reports, and emphasize the need to improve the monitoring of poverty reduction indicators, including through better statistics.

III. Relations with the IMF and Program Monitoring

32. The government would like the next economic and financial program supported by the Fund to be a nonfinancial program focusing on accelerating growth, reducing poverty,

and deepening fiscal and financial sector reforms. Accordingly, the government has established indicative quantitative benchmarks for end-March, June, September, and December 2006 as a basis for assessing performance in the coming months (Tables 3 and 4). In addition, the government will pursue the above-mentioned structural reforms, which could be developed further under the new program to be established on the expiry of the current arrangement on April 27, 2006.

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; end of period)

	March 31				June 30				Sept. 30				Dec. 31
	Performance Criteria	Performance Criteria after adjusters	Actual provisional	Status	Indicative Targets	Indicative Targets after adjusters	Actual provisional	Status	Performance Criteria	Performance Criteria after adjusters	Actual provisional	Status	Indicative Targets
Performance Criteria													
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 1/	13.5		26.5	met	32.7		118.3	met	44.0		120.5	met	40.4
Ceiling on the cumulative change in net bank credit to the government	-16.1	5.2	2.6	met	-24.5	-24.0	-81.0	met	-27.3	-39.6	-119.4	met	-17.5
Ceiling on government domestic payments arrears 2/	0.0		0.0	met	0.0		0.0	met	0.0		0.0	met	0.0
Ceiling on government external payments arrears 2/	0.0		0.0	met	0.0		0.0	met	0.0		0.0	met	0.0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 2/ 3/	0.0		0.0	met	0.0		0.0	met	0.0		0.0	met	0.0
Ceiling on the amount of government contracts signed without budgetary allocation 2/	0.0		0.0	met	0.0		0.0	met	0.0		0.0	met	0.0
Ceiling on the share of the value of government contracts signed by single tender (in percent)	20.0		19.3	met	20.0		31.9	not met	20.0		23.7	not met	20.0
Ceiling on													
transfers to SONACOS 2/	0.0		0.0	met	n.a. 4/			n.a. 4/	n.a. 4/			n.a. 4/	n.a. 4/
stock of arrears of SONACOS 2/	0.0		0.0	met	n.a. 4/			n.a. 4/	n.a. 4/			n.a. 4/	n.a. 4/
SONACOS' debt to the banking system	35.5		...	n.a 4/	n.a. 4/			n.a. 4/	n.a. 4/			n.a. 4/	n.a. 4/
Ceiling on													
budgetary transfers to cover SENELEC operating losses 2/	0.0		0.0	met	0.0		0.0	met	0.0		0.0	not met 5/	0.0
the stock of arrears of SENELEC 2/	0.0		0.9	not met	0.0		0.9	not met	0.0		1.0	not met	0.0
SENELEC's debt to the banking system	52.5		36.6	met	48.4		40.3	met	46.6		36.3	met	42.5
Indicative Targets													
Floor on tax revenue	176.5		190.7	met	385.1		435.6	met	601.6		634.6	met	840.1
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures	21.0		22.0	not met	21.0		14.0	met	21.0		32.6	not met	21.0
Ceiling on the wage bill	58.6		61.3	not met	118.6		124.2	not met	179.0		185.9	not met	255.3
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) 2/	0.0		0.7	met	0.0		-2.0	not met	0.0		11.9	met	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		35.9	not met	18.0		12.3	met	18.0		29.5	not met	18.0
Ceiling on guarantee deposits of the government	0.0		0.0	met	0.0		0.0	met	0.0		0.0	met	0.0
Memorandum items:													
External budgetary assistance, excluding IMF	32.8		20.1		41.2		25.0		44.6		27.3		53.0
Grants	3.7		0.0		7.7		4.9		11.1		6.3		11.5
Loans	29.1		20.1		33.6		20.1		33.6		21.0		41.5
Programmed spending of HIPC debt relief	5.9		6.8		27.5		18.5		34.3		26.2		69.0

1/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending, the cost of structural reforms and HIPC spending.
2/ This performance criterion or indicative target will be monitored on a continuous basis.
3/ This criterion excludes government or government-guaranteed CFAF borrowing from financial institutions within WAEMU.
4/ Not applicable: SONACOS was privatized in March 2005.
5/ SENELEC received budgetary transfers amounting to CFAF 16 billion in December 2005.

Table 2. Senegal: Prior Actions, Structural Performance Criteria, and Benchmarks for the Program under the PRGF Arrangement in 2005

Measures	Timetable	Status
Proposed prior actions for the combined third and fourth reviews		
• Promulgate a decree on transparency procedures for financing and construction of Dakar's new airport.		Implemented
• Improve the transparency of the government's Table of Financial Operations (TOFE) for October 2005 in line with the methodological Changes to the Government Operations Table explained in the box of the memorandum of economic and financial policies in 2006.		Implemented
Structural performance criteria		
• Submit to the IMF staff the monthly table of the government's financial operations (TOFE) for January 2005.	March 31, 2005	Implemented
• Eliminate the specific tax on refined vegetable oil.	December 31, 2005	Implemented
Benchmarks		
• Produce a report on direct and indirect taxes due and collected in January 2005.	March 31, 2005	Implemented with delay
• 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	Implemented
• 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	Not implemented
• Prepare 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	Implemented with delay
• Implement a new formula for electricity prices compatible with operator profitability.	October 1, 2005	Gradual implementation, starting in November 2005

Table 3. Senegal: Indicative Targets for 2006
(In billions of CFA francs, cumulative from the beginning of the year, unless otherwise specified; end of period)

	March 31	June 30	Sept. 30	Dec. 31
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 1/	-3.1	3.7	-13.8	0.0
Floor on tax revenue	208.8	464.0	669.2	892.1
Ceiling on the wage bill	72.0	144.0	216.0	266.3
Ceiling on the share of the value of government contracts signed by single tender (in percent)	20.0	20.0	20.0	20.0
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures	23.0	28.1	25.6	25.7
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 2/ 3/	0.0	0.0	0.0	0.0

1/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending, the cost of structural reforms and HIPC spending.
2/ This indicative target will be monitored on a continuous basis.
3/ This indicative target excludes government or government-guaranteed CFAF borrowing from financial institutions within WAEMU.

Table 4. Senegal: Quarterly Government Financial Operations, 2006 1/

	March	June	Sept.	Dec.
	(In billions of CFA francs, cumulative since the beginning of the year)			
Total revenue and grants	243.2	525.6	763.6	1022.4
Revenue	217.3	480.9	701.0	934.5
Tax revenue	208.8	464.0	669.2	892.1
Nontax revenue	8.5	17.0	31.8	42.4
Grants	26.0	62.7	81.4	87.9
Budgetary	9.4	9.4	9.4	16.0
Budgeted development projects	16.5	53.2	71.9	71.9
Total expenditure and net lending	269.8	631.8	930.6	1207.3
Current expenditure	178.9	364.7	541.7	700.7
Wages and salaries	72.0	144.0	216.0	266.3
Interest due	9.9	24.5	32.4	46.3
Of which : external	7.8	20.3	26.2	37.9
Other current expenditure	97.0	196.2	293.2	388.1
o/w: HIPC current expenditure	2.2	6.5	8.6	8.6
Capital expenditure	92.2	250.1	369.2	473.1
Domestically financed	56.6	144.8	218.7	295.0
Non HIPC financed	47.7	123.0	185.7	250.5
HIPC financed	8.9	21.8	33.0	44.5
Externally financed	35.6	105.3	150.5	178.1
Net lending	-1.3	1.5	4.3	18.0
Temporary costs of structural reforms	0.0	15.5	15.5	15.5
Selected public sector entities balance 2/	0.0	0.0	0.0	0.0
Overall fiscal balance (including grants)	-28.6	-86.0	-144.1	-184.9
Overall fiscal balance (excluding grants)	-54.6	-130.7	-206.8	-272.8
Primary balance 3/	-18.8	-61.5	-111.7	-138.6
Basic fiscal balance (program definition) 4/	-3.1	3.7	-13.8	0.0
Financing	28.6	86.0	144.1	184.9
External financing	30.7	58.7	75.3	145.5
Drawings	38.1	73.8	103.0	164.1
Program loans	16.2	16.2	16.2	31.9
Project loans	21.8	57.5	86.8	132.2
Amortization due	-12.6	-38.2	-54.6	-132.0
Debt relief and HIPC Initiative assistance	5.3	23.2	26.9	98.4
T-bills and bonds issued in WAEMU	0.0	0.0	0.0	15.0
Domestic financing	-2.1	27.3	68.8	39.3
Banking system	-2.1	27.3	71.6	41.0
Of which : T-bills and bonds	0.0	0.0	0.0	7.5
Nonbank financing	0.0	0.0	-2.8	-1.7
Of which : privatization receipts	0.0	0.0	0.0	1.1
Of which: T-bills and bonds	0.0	0.0	0.0	-2.0
Errors and omissions	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0
Memorandum items:				
Airport travel tax earmarked for new airport (RDIA)				16.1
Total HIPC spending	11.1	28.3	41.6	53.2
Basic fiscal balance (WAEMU definition) 5/	-14.2	-40.1	-70.9	-68.7

Sources: Senegalese authorities; and staff estimates and projections.

1/ Incorporates methodological changes presented in box of the Memorandum of Economic and Financial Policies.
2/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants' pension fund (FNR).
3/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, cost of structural reforms and HIPC expenditure.
5/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, and on-lending.

Priority Measures for Improving Fiscal Transparency in 2005–06

Measures	Timetable
1. Improve the quality of the information presented in the Budget Law, by submitting detailed information on:	
(i) all resources transferred to agencies, public entities (*établissements publics*), funds, and any other budget execution entities either directly or through the budget of spending ministries.	2006 Budget Law
(ii) full details of transfers to public or private enterprises and other public entities (*établissements publics*) to compensate them for their quasi-budgetary activities.	2007 Budget Law
(iii) exemptions of direct and indirect taxes, especially those that are associated with the new Investment Code.	2007 Budget Law
2. Prepare the Consolidated Investment Budget (BCI) and the three-year Investment Program using an economic classification of expenditures, starting with the 2007 Budget Law.	2007 Budget Law
3. Shorten the length of the complementary period (*periode complémentaire*): close out the administrative phase of the expenditure process (payment order or *ordonnancement*) on December 31, and the accounting phase (payment) at end-February of the following year, with exceptions strictly limited to expenditure included in the supplementary budget law.	December 2005
4. Define the legal framework for agencies, funds, and any other fragmented budget execution entities. Promulgate a law establishing the terms on which agencies and funds may be created, specifying their goals, decision-making bodies, and other mechanisms necessary for tracking and monitoring their operations, and budget execution procedures, including compliance with the Procurement Code.	December 2005
5. Improve the legal and operational framework for public procurement:	
• Forward to the National Commission of Public Procurement (CNCA) the procurement plans for 2006 of all government ministries and agencies.	January 2006
• Adopt a new Code of State Obligations and Procurement Code that limits the recourse to no-bid contracts.	April 2006
• Publish the 2003 Audit of Public Procurement and propose corrective measures, including the need for sanctions.	December 2005
6. Forward to the Audit Court the end-year treasury accounts (*comptes de gestion*) for 2004.	March 2006
7. Forward the draft budget review laws (*lois de règlement*) for 2003–2004 to the Audit Court.	June 2006

Decree on Transparency Procedures for the International Airport Blaise Diagne de Ndiass

The following is the text of the articles of the decree that was issued in December 2005 to establish transparency procedures for the use of public resources earmarked for the construction of the new airport.

Article 1. The revenues from the earmarked airport tax (RDIA) will be deposited in a blocked account in a reputable commercial bank of first rank.

The contract with the reputable international commercial bank where the blocked account will be opened includes the following:

(a) The funds deposited in the blocked account can only be withdrawn to service the loan contracted by the Investment and Operation Company for the financing of the airport project (the company).

(b) the depository bank will send a report to the Minister of Finance by the end of each month providing full information on:

- the amounts deposited in the blocked account and interest accrued the previous month and cumulatively since the opening of the account;
- the details of the administrative and banking charges;
- outflows from the blocked account (amounts withdrawn, transferred, paid to third parties, etc.), during the previous month and cumulatively since the opening of the account, by purpose, nature of transaction, and beneficiary; and
- the outstanding balance of the blocked account.

Article 2. The reports provided by the agencies in charge of the collection of the RDIA and by the depository bank will be sent to parliament for information by the Minister of Finance within 15 days of their receipt, and posted on the Ministry of Finance external website.

Article 3. The Minister in charge of the execution and construction of the airport will verify every six months that the use of the proceeds of the loan is consistent with the execution of the works. If the construction work is interrupted, or there are substantial differences between the payments and the progress of the construction work, the Minister responsible for the construction of the airport should ask the company to suspend the withdrawal of funds from the account where the proceeds from the loan have been deposited.

Article 4. The project and the contract between the government and the company will be submitted to the independent Council on Infrastructure and parliament for their advice. The statutes of the company and the government's contracts with IATA and the company will be published on the website of the Ministry of Finance.

Article 5. The Minister of State, The Minister of Economy and Finance and the Minister of Tourism and Air Transport are responsible, each according to their areas of expertise, for the implementation of this decree, which will be published in the Official Journal.

Priority Measures for Enhancing the Performance of the Financial Sector

Objective	Measures	Timetable
Improve the legal and judicial environment	Boost resources allocated to the judicial system, with the aim of:	2006 Budget Law
	• Enhancing the performance of the offices of the clerks of courts;	June 2006
	• Instituting a specialized window to expedite procedures for the realization of collateral;	June 2006
	• Creating specialized chambers within the Dakar courts to handle commercial, financial, and banking cases so as to simplify and expedite procedures for the realization of collateral;	June 2006
	• Increasing the number of judges trained in economic and financial matters and ensuring that court cases are handled regularly throughout the year (including during the judicial holiday period).	2006
Improve prudential regulation	Bring the following measures to the attention of the president of the Council of Ministers of the WAEMU:	Implemented, October 2005
	• Raise the minimum capital adequacy ratio,	
	• Adopt a law on bank failure in accordance with best international practices.	
Improve access to credit for SMEs	• Streamline the guarantee funds and the existing interest subsidy mechanisms, as well as their management.	December 2006
	• Provide technical, financial, and institutional assistance (through the Private Investment Promotion Project) to the National Association of Chartered Accountants (ONECCA) to promote the preparation of certified financial statements and prevent the illegal performance of accounting functions.	Ongoing from September 2005
	• Ensure the effectiveness of the ONECCA disciplinary unit.	December 2006