**International Monetary Fund**

Senegal and the IMF

**Press Release**:
IMF Executive Board Completes the First Review Under the Policy Support Instrument (PSI) for Senegal
June 18, 2008

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

May 30, 2008

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 a policy support instrument 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, Senegal
May 30, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. Strauss-Kahn,

1. The attached Memorandum of Economic and Financial Policies (MEFP) reviews implementation to date of the government of Senegal's macroeconomic and structural program under the country's three-year Policy Support Instrument (PSI), approved by the IMF Executive Board on November 2, 2007. Details of this program were set in the initial MEFP of October 3, 2007. The attached MEFP builds on this initial Memorandum, with particular emphasis on targets and policy prospects for 2008–09.

2. All assessment criteria for the first review under the PSI were met, save for the nonobservance of the continuous quantitative criterion on domestic arrears. Indeed, this criterion could not be met on a continuous basis at the beginning of the program. However, these arrears were quickly eliminated by end-November and the government has since then avoided any accumulation of new arrears. In light of this prompt corrective measure, the government requests a waiver of the missed criterion.

3. The government believes that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of a PSI program. Given its commitment to these objectives, it will promptly take any additional measures necessary for their achievement. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

4. The government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

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

Sincerely yours,
/s/

Ibrahima Sar
Minister of Budget

Attachment: Memorandum of Economic and Financial Policies

## ATTACHMENT I

## MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

**Dakar, May 30, 2008**

### I. INTRODUCTION

1. **The government remains committed to higher sustainable growth and making fast progress toward the MDGs.** To achieve these goals, it will continue to implement its economic and financial program, which relies on prudent macroeconomic policies and accelerated structural reforms and is supported by the IMF through a three-year Policy Support Instrument (PSI). The government's commitments, as spelled out in the Memorandum of Economic and Financial Policies (MEFP) dated October 3, 2007, will continue to anchor our policies and reforms going forward. This new MEFP describes recent economic developments and program performance, and presents the specific measures and objectives for 2008–09.

### II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

2. **Macroeconomic developments in 2007 were broadly in line with program projections.** Following a marked slowdown in 2006, and although the agricultural sector experienced a second year of output decline, GDP growth is estimated to have rebounded to 4¾ percent, driven by the services and construction sectors. Inflation increased to about 6 percent and the external current account deficit reached about 10½ percent of GDP, mainly due to large international food and energy price increases.

3. **At end-2007, the government met all quantitative assessment criteria except the one on domestic arrears**. This criterion could not be met on a continuous basis at the beginning of the program. However, these arrears were quickly eliminated by end-November.

4. **The target on the *basic* fiscal balance was met, and the *overall* fiscal deficit was lower than expected, at 3½ percent of GDP.** This mainly reflects under-execution of HIPC and MDRI expenditure (0.4 percent of GDP), a surplus of nonfinancial public entities (0.2 percent of GDP), and lower-than-expected onlending (0.1 percent of GDP); these lines are excluded from the program criterion definition. However, the government slowed the issuance of payment orders for some expenditure (equivalent to 1.8 percent of GDP) that had already been committed, which made it difficult to honor its commitments to the private sector. The payment delays had become necessary for two main reasons: (i) given the implementation of subsidies and suspensions of certain taxes to contain the impact of food and energy price increases, the government had to slow the issuance of payment orders for other expenditure (mainly investment spending) and (ii) it has committed expenditure in an amount that was higher than what was compatible with the program.

5. **The government has been striving to improve public procurement practices.** In spite of this, the indicative ceilings on the share of single-tender public contracts for the last quarter of 2007 and the first quarter of 2008 were missed, because a large number of contracts was approved during this period based on the old procurement code. However, the implementation of the new procurement framework will make it possible to meet this indicator as early as the second quarter 2008.

6. **The government succeeded in improving the allocation of spending toward priority sectors in 2007.**[1] The targeted ratio of 33 percent of total expenditure for social spending was met, which represents an increase of 2 percentage points compared to 2006.

7. **The government made great strides in implementing its structural reform program**. All structural assessment criteria and all but one benchmark through end-March 2008 were met. At this date, the submission of the 2004 and 2005 Treasury accounts to the audit court was only partially completed, since it only covered 9 and 5 accounts (*postes comptables*), respectively, out of 12. The submission of the 2004 and 2005 accounts will be fully completed by end-April and end-May, respectively. Most other measures not subject to conditionality but specified in the MEFP have been implemented.

## III. Macroeconomic Policies for 2008–09

8. **The macroeconomic outlook for 2008–09 is broadly favorable despite the more difficult international perspective.** Real GDP growth is projected to reach about 5½ percent on average over the next two years, reflecting a gradual recovery of ICS's operations, buoyant construction activity, and continued strong growth in the telecommunications and transport sectors. Inflation is projected to return to its historical level of 2 percent over the medium term. Nonetheless, because upward pressures on the prices of food and energy are expected to continue in the short run, the government projects the inflation rate at 4½ percent in 2008. The external current account deficit should oscillate between 11 and 12 percent of GDP, financed to an increasingly large extent by FDI inflows. External and domestic public debt would increase moderately, reaching about 21 and 7 percent of GDP, respectively, by 2009. While the regional framework for monetary and exchange rate policies will continue to help preserve low inflation, a prudent fiscal policy will remain the key instrument for achieving macroeconomic stability in Senegal and contribute to the WAEMU's external stability.

[1] Social expenditures in the context of the program are those of the PRSP. They include spending on health, education, justice, social development, environment, rural hydraulics, and waste management.

## A. Fiscal Policy

### Fiscal stance

9. **The government reiterates its commitment to limit the overall fiscal deficit to 4 percent of GDP over the medium term.** This deficit level will preserve public debt sustainability. This in turn will be key to underpin investment and growth and also help maintain domestic stability by containing demand pressures and avoiding crowding out the private sector. Nonetheless, the deficit will temporarily rise to 4.9 percent of GDP in 2008, after 3½ percent of GDP in 2007, in view of the regularization of expenditure committed in 2007. The deficit target will be consistent with a basic fiscal deficit of CFAF 95 billion in 2008 (quantitative assessment criterion). The government will resume its envisaged medium-term fiscal adjustment path in 2009.

10. **The government is aware of the need to curtail nonpriority spending in 2008.** To this end, it published on May 19, 2008, an administrative order (*circulaire*) from the prime minister that limits the authorizations of commitments (*engagements*) for current expenditure in goods and services to CFAF 229 billion and commitments for domestically-financed capital expenditure to CFAF 429 billion, while at the same time protecting priority expenditures. The administrative order from the prime minister indicates that expenditure related to preceding years will have to be paid in priority. A subsequent administrative order by the Minister of Economy and Finance was issued on May 20, 2008 to provide the breakdown of the authorizations of commitments by ministries consitent with the Prime Minister's administrative order (prior action). The government has provided the IMF staff with the list of envisaged adjustments relative to the 2008 budget laws. The government will block the authorizations of commitments in SIGFIP (the expenditure tracking system) in order to apply the administrative orders.

11. **Spending in favor of priority sectors will continue to be increased.** This should make it possible to bring social expenditure to 40 percent of total expenditure, or 10.7 percent of GDP, by 2010. Allocations to social sectors will reach 9.5 percent of GDP in 2008 and 10 percent of GDP in 2009. Expenditure in favor of rural areas and infrastructure spending will also be increased. This will be facilitated by the completion of the replenishment of the HIPC and MDRI accounts, in the amount of CFAF 15 billion in 2008, in line with the commitments from the preceding MEFP (paragraph 46), and by the integral use of this amount and all resources freed by these initiatives. The government will use these accounts exclusively for their intended purpose. Finally, in order to facilitate tracking of HIPC and MDRI expenditure, all payment orders related to such expenditure will be assigned the relevant identifying code by end-2008.

### Debt Management

12. **To underpin debt sustainability, the government will continue to adhere to the general principle of neither contracting nor guaranteeing external loans on**

**nonconcessional terms**. Nonetheless, it will need to have recourse to such resources in the amount of about CFAF 80 billion for one high priority project (quantitative assessment criterion). This would allow us to quickly complement donor resources to cover the State's share in 2008 and 2009 for the costs of the Dakar-Diamniadio toll highway, which is being developed under a public-private partnership. Several feasibility studies, including those by the World Bank and the Agence Française de Développement, have shown that the return of this project exceeds the cost of the nonconcessional borrowing for the government's share. The government will consult with IMF staff well in advance for any additional future exceptions to this assessment criterion. The principles for such borrowing are stipulated in paragraph 22 of the preceding MEFP.

13. **Consistent with earlier commitments, other aspects of debt management will also be strengthened.** First, the government will develop before end-June 2008 a rolling two-year program of issuance of government securities, in collaboration with the BCEAO (structural benchmark). The program will aim at lengthening the maturity profile of securities and make market access more frequent and regular. It will be updated after each security is issued and will be consistent with the macroeconomic framework under the PSI. Such a program of issuance of government securities should help limit the government's cash flow problems and facilitate the development of regional financial markets. Second, starting in December 2008, the semiannual debt sustainability analysis will include an analysis of risks posed by contingent liabilities stemming from government guarantees, PPPs, and the operations of public enterprises.

**Elimination of payment delays**

14. **Based on a preliminary stocktaking exercise completed in May 2008, we have identified extrabudgetary spending and payment delays in the early stages of the expenditure chain.** Spending without budget appropriation, equivalent to about 0.2 percent of GDP, may have taken place in 2007 and early 2008 and will be fully regularized in a new supplementary budget, unless the Minister of Economy and Finance (MEF) considers that it does not respect the rules governing public expenditure as stipulated by article 18 of the 2007 budget law. Payment delays in the early stages of the expenditure chain related to prior fiscal years and amounting to 1.8 percent of GDP will be fully settled during 2008. These delays have arisen because the government slowed the issuance of payment orders, while continuing to commit to expenditures. The preliminary stocktaking exercise will be supplemented by end-September 2008 with a thorough audit of the State's payment delays by the financial audit inspectorate of the MEF (*Inspection Générale des Finances*), which will, if need be, be assisted by a specialized private audit firm (structural benchmark). In addition, the government will take appropriate corrective actions to restore the integrity of the budgetary framework and support private sector development and the soundness of the banking system. For this purpose, it will:

a. Not accumulate any domestic payment arrears under the WAEMU definition (continuous quantitative assessment criterion).

b. Limit the stock of the budgetary float, defined as expenditure for which a bill has been received and recognized (*dépenses liquidées*) but remains unpaid (quantitative assessment criterion).

c. Limit the stock of expenditure committed (*dépenses engagées*) for which a bill has not been recognized (*dépenses non liquidées*) .

d. Improve the monitoring of budget execution and the expenditure chain by: (i) installing the ASTER accounting software at the Treasury and connecting it to the SIGFIP software of the Ministry of Economy and Finance by the end of the second quarter 2009; and (ii) in the meantime, using the recent extension of SIGFIP to the payment phase.

e. Limit Treasury advances to 10 percent of total annual spending on nonwage current expenditure and domestically-financed capital expenditure and to no more than CFAF 30 billion at any given point.

## IV. Structural Reforms

### A. Fiscal Structural Reforms

15. **Fiscal structural reforms will remain at the core of our structural reform program.** This should enable us to improve the productivity of public expenditures, enhance fiscal transparency, and better assess, contain, monitor, and report budgetary risks.

**Strengthening investment planning and evaluation**

16. **The government will continue to honor earlier commitments to strengthen public investment planning and evaluation and improve the framework for the implementation of PPPs.** This will allow it to enhance efficiency gains and better implement its ambitious investment program that is to help lay the foundation for strong future economic growth. During 2008–09, the following measures will be given priority:

a. The government will issue, by November 15, 2008, a prime ministerial administrative order that will stipulate guidelines to strengthen public investment planning and evaluation. These guidelines will be developed in a participative way by representatives of the State's services involved in investment planning and evaluation. The guidelines will aim to describe the procedures and institutional responsibilities to ensure: (i) consistency of investment projects with strategic objectives and between investment projects; (ii) consistency of investment programs with the medium-term macroeconomic framework; and (iii) the establishment of standards for project analysis according to the size of the projects, as well as the respect of these standards in order to facilitate the selection of the best projects (structural assessment criterion).

b. As planned under the Accelerated Growth Strategy (AGS), and in line with the recommendations of the Presidential Investment Council (CPI), the government will prepare, by end-June 2008, a modification to the Law 2004-13 of March 1, 2004, on Build-Operate-Transfer (BOT) contracts. In particular, this modification will aim at allowing, in case of dispute, international arbitration and the choice of the third arbiter by a neutral institution rather than the Dakar regional court.

**Large investment projects**

17. **The government will continue to ensure transparency and efficiency in the execution of its large investment projects.** It considers these projects as key to increase the growth potential of the Senegalese economy. Earlier commitments regarding the airport project and the Dakar integrated special economic zone (DISEZ) will continue to be observed. With respect to DISEZ, the government is determined to continue the preparations for making the zone operational by 2010. At the same time, it is committed to creating a zone that generates value added without weakening the government's revenue base. The zone should therefore help generate a rise in growth and employment while preserving macroeconomic stability. To this end:

a. The government will adopt an implementation decree on the DISEZ law by November 15, 2008. The decree will stipulate that (i) regulated enterprises in the telecommunications sector, i.e., telecommunications operators, will be excluded from coverage of the DISEZ law; (ii) enterprises in the hydrocarbons sector will be authorized in the zone only if they are exclusively dedicated to exporting; and (iii) as envisaged under article 30 of the DISEZ law, a list of sanctions will be implemented in case the regulations governing the zone are violated, especially with a view to limiting fiscal fraud and having the possibility of excluding enterprises in case of major breaches of these regulations (structural assessment criterion).

b. With a view to ensuring the efficiency, equity, and viability of the tax system, and to limit possibilities for fraud, APIX, the Revenue Authority (DGID) and the Customs Authority (DDI) will agree, by end-March 2009, on memoranda of understanding (*protocoles d'accord*) that will stipulate, among other things: (i) their respective rights and responsibilities; (ii) the specific measures to fight against fraud and tax evasion; and (iii) the rules for resolving conflict (structural benchmark).

c. In order to safeguard the fiscal integrity of the zone, the government will secure it with a wall or a fence and set up a very limited number of access roads. The government will implement a GPS tracking system to track transport vehicles entering and leaving the zone.

d. The government will prepare directives on transfer pricing, based on OECD guidelines.

**Procurement**

18. **A new procurement framework is now in place, and the government is determined to apply it forcefully.** Specifically:

a. The government will redouble its efforts to respect the quarterly indicative target on the share of government contracts awarded on a noncompetitive basis, set at 20 percent of all contracts, including those entered into by agencies.

b. Starting at end-June 2008, the government will publish on the website of the central directorate for public procurement (DCMP) the list of contracts awarded quarterly.

c. No public procurement will be allowed unless it has been included in the procurement plans submitted to the DCMP.

d. Starting at end-June 2008, the procurement regulatory agency (ARMP) will conduct audits and surveys of government contracts, as described in the earlier MEFP.

**Monitoring risks inherent to public sector operations and fiscal transparency**

19. **In order to strengthen the monitoring of fiscal risk and enhance fiscal transparency, the government will:**

a. Reflect in an annex to the Budget Law, starting with the 2009 Budget Law, the fiscal risks associated with public sector operations, the financial flows related to quasi-fiscal activities of public or private enterprises and public entities, as well as a quantitative assessment of tax exemptions, in aggregate terms, for the last available fiscal year.

b. Forward the end-year Treasury accounts (*Comptes de gestion*) for 2006 to the audit court by end-August 2008 and those for 2007 by end-March 2009.

c. Forward the draft budget review law (*lois de règlement*) for 2004 to the audit court before end-June 2008 and those for 2005–06 before end-December 2008.

d. Submit to Parliament by end-October 2008 a law establishing the conditions under which government agencies may be created and specifying the objectives, decision-making bodies, and mechanisms for controlling their operations and budget execution procedures.

e. Provide the audit court, in the context of the 2009 Budget Law, with the necessary resources to obtain additional premises with sufficient space—through renting, buying or building offices—and to hire 30 new judges and prosecuting attorneys for each audit chamber.

**Alleviating price increases**

20. **Helping the population cope with the impact of rising food and energy prices is a national priority.** In doing so, the government intends to strike the appropriate balance between safeguarding macroeconomic stability and providing immediate temporary relief to those in need. To this end, the government will examine options for improving the targeting of existing relief measures and containing their impact on the budget.

21. **With a more medium-term perspective, the government will focus on improving the supply and lowering the costs of food and energy products.** The agricultural sector is also vital to the fight against poverty. The government attaches importance to expanding domestic agricultural production, in particular of high-yield products, such as rice. To this end, it will work with farmers to improve infrastructure, particularly irrigation and storage systems; increase competition; and redirect agricultural subsidies to help enhance farm productivity. In the same vein, energy sector reform is aimed at enhancing production and generating cost reductions which the government intends to gradually pass on to consumers.

**Energy sector reform**

22. **Energy sector reform is crucial to improve the supply of energy to the economy and contain fiscal risks.** The government has finalized the main elements of its reform program—supported by the World Bank and other donors—with the signature of the sectoral policy letter. The government is guided by the principle of truth in pricing and the implementation of energy savings and efficiency gains. To support the reform program, it will:

a. By August 1, 2008, adopt and make effective the new tariff structure for electricity, which provides a progressive pricing structure—which would encourage energy savings—and incorporates lower tariff adjustments for low-income consumers (structural assessment criterion).

b. Announce by August 1, 2008, an increase in electricity prices based on the exceptional revision to the existing formula.

c. Complete the recapitalization of SENELEC by 2009. In 2008, budgetary resources of CFAF 37 billion will be provided to SENELEC for this purpose.

d. The government remains committed to eliminating the butane subsidy by end-July 2009. In the meantime, butane prices will be adjusted to limit the annual subsidy to CFAF 32 billion in 2008.

**Tax administration**

23. **The Revenue Authority (DGID) has followed a roadmap for further enhancing the efficiency of tax administration.** The priority measures for the coming months are to:

a. Extend by end-December 2008 the tax management software (SIGTAS) to all taxes for all Dakar collection centers.

b. Make the interface between the information systems of the three tax revenue-collecting offices (DGID, DGD, and DGCPT) fully operational by February 2009.

c. Adopt by October 31, 2008, all the legal texts and regulations necessary for the effective transfer of direct State tax collection responsibilities from the Treasury to the DGID starting January 1, 2009 (structural benchmark). This requires modification of the Tax Code, the decree regulating public accounting, and the ministerial orders relative to the organization of the DGID and the DGCPT. The integration of tax assessment and collection in the same entity will facilitate the fight against fraud and safeguard tax revenues. A schedule for this transfer along the following lines will be published:

   (i) Effective January 1, 2009 for the region of Dakar: Transfer of the collection of the income tax (IR) by salary deduction, taxes on revenue by professionals (*bénéfices non commerciaux et autres sommes payées à des tiers*), profits taxes (IS), and income taxes owed by the taxpayers monitored by the large taxpayer unit (CGE).

   (ii) Effective January 1, 2010: Transfer of the IS and IR owed by other taxpayers in the region of Dakar.

   (iii) Effective January 1, 2011: Transfer of the IS and IR owed by taxpayers located outside of Dakar.

## B. Accelerated Growth Strategy and Development of the Private Sector

24. **The Accelerated Growth Strategy (AGS) will remain the anchor of the reform agenda and of priority measures to enhance the growth potential of the Senegalese economy.** Implementation of this strategy is now on track with the adoption of framework law 2008-03 of January 8, 2008, and its implementation decree 2008-56 of January 29, 2008 which sets out the organizing and functioning rules of the institutional framework for implementing the AGS. The institutional set-up will be operational by end-May 2008. In addition, the framework to assist the private sector will be restructured and strengthened in order to better complement the AGS. The President's Investment Council (CPI) is the appropriate forum to advance the reform agenda for transversal measures, and progress is assessed in weekly meetings of the relevant working groups.

### C. Financial Sector Reforms

25. **The government is determined to safeguard the soundness of the financial system and enhance its contribution to the economy.** To this end, and consistent with earlier commitments, the government will:

a. Issue the implementation decrees for the new law on microfinance institutions by end-June 2008 and strengthen the oversight unit within MEF.

b. Submit to Parliament by end-December 2008 the new regional law against the financing of terrorism.

c. Implement all decisions and recommendations of the WAEMU regional banking commission.

d. Work closely with the BCEAO and the WAEMU regional banking commission to limit the impact of the ICS restructuring plan on the banking system.

e. Continue to discuss with the Association of Senegalese Banks a reduction in the tax on banking operations (TOB) or its replacement with the VAT, in order to find a solution that would facilitate access to credit while limiting the impact on public finances.

f. During the current year, train judges specialized in economic and financial matters and improve procedures for real estate sales.

## VI. Program Monitoring

26. Quantitative assessment criteria for end-June 2008 and end-December 2008, and indicative targets for end-September 2008 were set to monitor program implementation in 2008 (see Table 1 of the annexed Technical Memorandum of Understanding—TMU). The government and IMF staff also agreed on the prior action, structural assessment criteria, and benchmarks listed in Table 2 of the TMU. The second and third reviews are scheduled to take place by end-December 2008 and by end-June 2009. The government understands that completion of the second review of the program is contingent upon the observance of the assessment criteria set for end-June 2008 and the structural assessment criteria for the period through November 15, 2008.

## ATTACHMENT II

## TECHNICAL MEMORANDUM OF UNDERSTANDING

**Dakar, May 30, 2008**

1. This technical memorandum of understanding (TMU) defines the quantitative and structural assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2008 and 2009. The TMU also establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

## I. PROGRAM CONDITIONALITY

2. The quantitative assessment criteria for June 30, 2008 and December 31, 2008 and the quantitative indicators for September 30, 2008, are shown in Table 1. The prior action, structural assessment criteria, and structural benchmarks established under the program are presented in Table 2.

## II. DEFINITIONS, ADJUSTERS, AND DATA REPORTING

### A. The Government

3. 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 a separate legal personality (e.g., public universities and hospitals).

### B. 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 externally-financed capital expenditure (financed by donors), drawings on on-lent loans (except on-lent loans to the energy sector financed through donor budget support), and expenditure funded with HIPC- and MDRI-related resources. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on a payment order basis. The assessment criterion is set as a floor on the cumulative basic fiscal balance since the beginning of the year.

**Example**

5. The floor for the basic balance (program definition) as at December 31, 2008 is minus CFAF 95 billion. It is calculated as the difference between budgetary revenue (CFAF 1254 billion) and total expenditure and net lending (CFAF 1667 billion), excluding externally financed capital expenditure (CFAF 231 billion), drawings on on-lent loans (CFAF 0 billion), and expenditure funded with HIPC- and MDRI-related resources (CFAF 87 billion).

**Reporting requirements**

6. During the program period, the authorities will report monthly to Fund staff provisional data on the basic fiscal balance (program definition) and its components with a lag of no more than 45 days. Data on revenues and expenditure that are included in the calculation of the basic fiscal balance, and on expenditure financed with HIPC- and MDRI-related resources, will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but not later than two months after the reporting of the provisional data.

## C. Government Domestic Payments Arrears

**Definition**

7. In line with the WAEMU definition, domestic payment arrears are government expenditures cleared for payment (*dépenses ordonnancées*) but not paid during a period of 90 days after the date the payment order (*ordonnancement*) was cleared. The assessment criterion on domestic payment arrears will be monitored on a continuous basis.

**Reporting requirements**

8. 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 maximum delay of 60 days all committed expenditure (*dépenses engagées*) and all certified expenditure that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*).

## D. Budgetary Float

**Definition**

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

**Reporting requirements**

10. The authorities will report to Fund staff the amount of budgetary float on the same basis as described in paragraph 8 of this TMU.

## E. Government External Payment Arrears

**Definition**

11. External payment arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt given in paragraph 13 is applicable here. The assessment criterion on external payment arrears will be monitored on a continuous basis.

**Reporting requirements**

12. The authorities will report to Fund staff any accumulation in external payment arrears as soon as the due date is passed.

## F. Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

**Definition**

13. This assessment 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 funds have not been received. It does not apply to government or government-guaranteed CFAF borrowing from individuals or legal entities that are WAEMU residents. It does not apply either to external loans contracted by the airport project company (AIDB) to finance construction of the new Dakar Airport. The definition of new external debt under the AC excludes debt rescheduling transactions of debt existing at the time of the approval of the PSI. This criterion is measured on a cumulated basis since the approval of the first program review. The ceiling was raised to CFAF 80 billion in the fourth quarter of 2008 exclusively to finance the toll highway (Dakar-Diamniadio) project. The CFAF 80 billion ceiling will be adjusted downward by the amount of any receipt from a privatization, a sale of a telecommunication license, or any other State asset (such as Sonatel shares) during 2008.

14. For purposes of this assessment criterion, government is understood to include the government as defined in paragraph 3 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 (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

15. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is greater than 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.

**Reporting requirements**

16. 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.

### G. Public Sector Contracts Signed by Single Tender

**Definition**

17. Public sector contracts are administrative contracts, drawn up and entered into by government entities subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered single-bid contracts when the contracting agent signs the contract with the chosen contractor without competitive tender or award. The quarterly indicative target will apply to public sector contracts examined by the *Commission Nationale des Contrats de l'Administration* (CNCA) until December 31, 2007, and to those examined by the *Direction Centrale des Marchés* (DCM) thereafter.

**Reporting requirements**

18. The government will report quarterly to the Fund staff, with a lag of no more than one month from the end of the observation period, the total value of contracts signed by all ministries and agencies and the total value of all single-bid contracts signed by these ministries and agencies.

## III. Additional Information for Program Monitoring

19. The authorities will report to Fund staff the following, with the maximum time lags indicated:

(a) Effective immediately: any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program;

(b) With a maximum lag of 45 days, preliminary data on:

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury on a monthly basis;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investment Directorate (DDI) on execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts (*balances de compte*); and
- The provisional balance of the Treasury accounts.

(c) 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.

20. During the program period, the authorities will report to Fund staff provisional data on a monthly basis on current nonwage 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 consolidated treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

21. The government will report to Fund staff:

- The monthly balance sheet of the Central Bank, with a maximum lag of two months;
- The consolidated balance sheet of banks with a maximum lag of two months;
- The monetary survey, on a quarterly basis, with a maximum lag of two months;
- The lending and deposit interest rates of commercial banks, on a monthly basis; and
- Prudential supervision and financial soundness indicators for bank and nonbank financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* [*Survey of Credit Institutions in Relation to the Prudential Framework*], on a quarterly basis.

22. The government will update monthly on the website used for this purpose the amount of airport tax—*redevance de développement des infrastuctures aéroportuaires* (RDIA)—collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport.

Table 1 of MEFP: Quantitative Assessment Criteria and Indicative Targets for 2008–09 1/

(In billions of CFA francs; unless otherwise specified)

| | June 30, 2008 | | September 30, 2008 | December 31, 2008 |
|---|---|---|---|---|
| | Initial program target | New target | | |
| Assessment criteria | | | | |
| Floor on the basic fiscal balance 2/ | -26 | -48 | -71 | -95 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/ | 0 | 0 | 0 | 80 |
| Ceiling on government domestic payment arrears (stock) 5/ | 0 | 0 | 0 | 0 |
| Ceiling on government external payment arrears (stock) 5/ | 0 | 0 | 0 | 0 |
| Ceiling on the amount of the float (depenses liquidees non payees) 6/ | 30 | 50 | 40 | 30 |
| Indicative target | | | | |
| Quarterly ceiling on the share of the value of public sector contracts signed by single tender (in percent) | 20 | 20 | 20 | 20 |

1/ Data for September are indicative targets, with the exception of the assessment criteria monitored on a continuous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC and MDRI spending. Cumulative since the beginning of the year. Total revenue excludes privatization receipts and sales of mobile telephone licenses.

3/ This target, which was defined on a continuous basis, is now defined on a cumulative basis since the approval of the first program review. The ceiling was raised to CFAF 80 bn in the 4th quarter 2008, to finance exclusively the Dakar-Diamniadio toll highway project. The CFAF 80 billion ceiling will be adjusted downward by the amount of any receipt from a privatization, a sale of a telecommunication license, or any other State asset (such as Sonatel shares) during 2008.

4/ This criterion excludes government or government-guaranteed CFAF borrowing from financial institutions within WAEMU. It also excludes external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

5/ Monitored on a continuous basis.

6/ The budgetary float, which was defined as the expenditure for which a payment order has been issued and which has not been paid, is now defined as the expenditure for which a bill has been received and recognized (depense liquidee) and which has not been paid.

Table 2 of MEFP. Structural Conditionality, 2008–09

| Policy Measures | Target Date for Implementation | Macroeconomic Rationale |
|---|---|---|
| **Prior Action** | | |
| 1. Publish administrative orders from the prime minister and finance minister which will limit the authorizations for commitments on current expenditure and domestically-financed capital expenditure, as specified in paragraph 10. | Prior to Board presentation of PSI first review | Underpin fiscal adjustment and eliminate payment delays, while protecting social expenditure. |
| **Structural Assessment Criteria** | | |
| 2. Adopt and make effective the new tariff structure for electricity, which provides progressive tariff rates, in order to encourage energy savings, with lower tariff adjustments for low-income consumers. | August 1, 2008 | Manage electricity demand to limit the impact of international oil prices on the fiscal and external accounts. Protect the poorest households from increases in international prices. |
| 3. Issue the implementation decree for the application of Law 2007-16 on DISEZ, as specified in paragraph 17 of the MEFP. | November 15, 2008 | Limit the impact of the special economic zone on government revenues and preserve macroeconomic stability. |
| 4. Publish an administrative order from the prime minister with guidelines to strengthen public investment planning and evaluation, as specified in paragraph 16 of the MEFP. | November 15, 2008 | Encourage the selection of the most economically and socially profitable investment projects; improve public expenditure productivity and the growth potential of the economy. |
| **Structural Benchmarks** | | |
| 5. Develop a rolling two-year program of issuance of government securities, in collaboration with the BCEAO, as specified in paragraph 13 of the MEFP. | June 30, 2008 | Improve cash-flow management and avoid payment delays; improve debt management and facilitate financial market development; support BCEAO's monetary policy. |
| 6. Complete a comprehensive audit of payment delays by the financial audit inspectorate of the MEF (*Inspection Générale des Finances*), as specified in paragraph 14 of the MEFP. | September 30, 2008 | Eliminate payment delays, reestablish budgetary framework integrity, and underpin the development of the private sector and the soundness of the financial sector. |

| Policy Measures | Target Date for Implementation | Macroeconomic Rationale |
| --- | --- | --- |
| 7. Adopt all the legal texts and regulations allowing the effective transfer of direct State tax collection responsibilities from the Treasury to the DGID effective January 1, 2009, as specified in paragraph 23 of the MEFP. | October 31, 2008 | Improve tax collections and enhance fiscal sustainability, by facilitating the fight against tax fraud. |
| 8. Prepare memoranda of understanding which stipulate the respective rights and responsibilities of APIX, DGID, and DDI regarding the management of DISEZ, as specified in paragraph 17 of the MEFP. | March 31, 2009 | Preserve tax revenues and safeguard fiscal governance and macroeconomic stability. |