International Monetary Fund

Senegal and the IMF

Press Release:
IMF Executive Board Completes Final Review Under PSI with Senegal and Approves New Three-Year PSI
December 3, 2010

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

November 10, 2010

The following item is a Letter of Intent of the government of Senegal, which describes the policies that Senegal intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Senegal, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

LETTER OF INTENT

Dakar, Senegal
November 10, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. The Government of Senegal requests completion of the sixth review of its macroeconomic program supported by the Policy Support Instrument (PSI). At the same time, it is seeking approval of a new PSI for the period 2010–2013 and cancellation of the present PSI, which should come into effect following the approval of the new PSI. In support of these requests, the attached Memorandum of Economic and Financial Policies (MEFP) reviews the implementation of the present PSI and sets out the government's short- and medium-term objectives and policies under the new program.

2. These policies are consistent with Senegal's poverty reduction strategy as presented in the Poverty Reduction Strategy Paper (PRSP-II), which is nearing the end of its 2006–2010 implementation period, as well as with the third generation New Economic and Social Policy Paper (PRSP-III), which is under preparation and covers the 2011–2015 period. The new Poverty Reduction Strategy is expected to be approved in early 2011, prior to the first PSI review. The new program builds on the first PSI. It is aimed at pursuing a prudent fiscal and debt policy to maintain macroeconomic stability; raising revenue to create more fiscal space for priority spending, including additional infrastructure investment; further strengthening public financial management and governance to enhance fiscal transparency, improve the productivity of public expenditure, and reduce budgetary risks; and stimulating private sector development through structural reforms, particularly in the energy and financial sectors and other reforms related to the business climate.

3. Regarding the present PSI, all the quantitative assessment criteria for end-June and all quantitative indicative targets for end-September 2010 were met. Structural reforms have generally progressed in line with the program despite some delays regarding regularization of extrabudgetary commitments and integration of wage expenditure in the SIGFIP expenditure tracking system.

4. The government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of the next PSI-supported program. Given its commitment to macroeconomic stability, the government will promptly take any additional measures necessary for the achievement of the objectives of the program. 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 in the event of changes to the policies contained in the attached MEFP. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

5. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, which also includes the debt sustainability analysis, and the PRSP Progress Report of October 2010.

Sincerely yours,

/s/

Abdoulaye Diop
Minister of State
Minister of Economy and Finance

Attachments: - Memorandum of Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

ATTACHMENT I

SENEGAL

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Dakar, November 10, 2010

I. PERFORMANCE UNDER THE PSI

1. **This memorandum reviews performance under the PSI program (2007-2010) and sets out Senegal's three-year economic program with the IMF for the period 2010–13.** The memorandum first presents a summary of progress made under the PSI program (Section I). It then defines the key objectives of the new program and identifies key reform measures for the coming three years (Section II). Section III focuses on the short-term macroeconomic framework, and the budget for 2010 and 2011. Section IV discusses program monitoring.

2. **The recent period has been marked by a challenging international environment characterized by a succession of shocks (upsurge in oil and food prices and a financial crisis) which adversely impacted Senegal's economy.** Real GDP growth is estimated at 2.2 percent in 2009. However, the economy is gradually recovering and GDP is expected to expand by 4.0 percent in 2010, reflecting in particular the favorable performance of the secondary sector and recovery of the tertiary sector. With respect to fiscal and structural reforms, major results have been obtained in the context of the PSI program:

<u>Public Finances</u>

(a) A decree has been adopted to establish a timetable and the main budget preparation methods.

(b) The presentation of the Budget Law has been improved and brought into line with best international practices.

(c) The budget and accounting year has been closed within the legally established time frames since 2008, and the budget outturn data from the SIGFIP table have been frozen and published by the end of the month of April in the following year.

(d) The interconnection of the three revenue-producing agencies (Treasury, Taxes and Government Property, and Customs) has been effectively implemented and the SIGTAS software has been extended to encompass the full set of tax centers in Dakar.

(e) The transfer of revenue collection for the *Fonds de Sécurisation des Importations de Produits Pétroliers* (FSIPP) and direct taxes to the Revenue Authority (DGID) instead of the *Société Africaine de Raffinage* (SAR) and the General Directorate of Government Accounting and Treasury (DGCPT), respectively, has been carried out in order to enhance the efficiency of revenue collection.

(f) A study of tax expenditures has been prepared with a view to streamlining such expenditures.

<u>Governance</u>

(g) In the context of efforts to strengthen transparency and governance, delays in the production of year-end Treasury accounts (*comptes de gestion*) and budget review laws (*lois de règlement*) have been eliminated.

(h) The monthly government financial operations table (TOFE) and the weekly budget outturn generated through SIGFIP are published on the website of the Ministry of Economy and Finance.

(i) The first audit reports of the Procurement Regulatory Agency (ARMP) have been completed.

<u>Structural Reforms</u>

(j) An implementing decree for the new law on microfinance institutions has been adopted in an effort to strengthen financial intermediation and provide better access to credit.

(k) A financial sector action plan based on the recommendations of the Financial Sector Assessment Program (FSAP) has been prepared.

(l) In the energy sector, butane gas subsidies have been eliminated and the government has continued to pursue reforms in collaboration with its development partners.

(m) The judicial system has been strengthened through the recruitment of judges and clerks and by the establishment of special commercial chambers within the courts to deal with business disputes.

3. **Senegal's performance for the sixth review of the first PSI was broadly satisfactory.** All the quantitative assessment criteria for end-June and all the quantitative indicative targets for end-September were met. Structural reforms have generally progressed in line with the program despite some delays in the integration of wage expenditure in SIGFIP and the regularization of extrabudgetary commitments. The government prepared a

supplementary budget in May 2010, expanded SIGFIP by improving the SIGFIP-Aster interface, completed the inventory of accounts of government and public entities, and compiled the general tax code into a single document. The government also finalized the modalities for settlement of the balance of extrabudgetary expenditure in the amount of CFAF 30 billion. With a view to correcting past irregularities and avoiding a recurrence of the same type of disputes in the future, a 50 percent discount was applied to the portion of the extrabudgetary debt not contracted in accordance with the rules governing public expenditure. On October 18, the government published a press release explaining the settlement terms for all of the extrabudgetary claims. An internal audit conducted by the Office of the Inspector-General of Finance (IGF) for fiscal year 2009 was completed at end-September 2010 and is in the process of being validated.

II. Objectives and Policies for the Three-Year Program

4. **The development strategy for Senegal will continue to focus on reducing poverty and improving living conditions.** In this connection, the government will press ahead with efforts to lay the groundwork for strong, sound, and sustainable growth, with a view to turning Senegal into an emerging market economy. Economic and financial policies will be aligned with the Economic and Social Policy Paper (PRSP-III) to be finalized in early 2011. The objectives of the proposed program build on those of the first PSI.

5. **Within the overriding goal of fostering economic growth, the key objectives of the government's action plan backed by the IMF-supported program are**: (i) pursuing a prudent fiscal and debt policy and improving expenditure quality so as to maintain macroeconomic stability; (ii) raising revenue to create more fiscal space for priority spending, including additional infrastructure investment; (iii) further strengthening public financial management and governance to enhance fiscal transparency, budget planning and execution, improve the productivity of public expenditure, and reduce budgetary risks; and (iv) stimulate private sector development through structural reforms, particularly in the energy and financial sectors, and other reforms related to the business climate.

Pursuing prudent policy in the areas of fiscal affairs, infrastructure needs, and indebtedness

6. **The pursuit of a prudent fiscal and debt policy is the main domestic instrument to maintain macroeconomic stability, which rests on maintaining low inflation and public debt sustainability**. Within the limits of available financing, a fiscal deficit of under 4 percent of GDP over the medium-term and 3 percent of GDP in the long term would accomplish these goals, which the government is committed to achieving. This will also allow reductions in the basic fiscal deficit towards balance in accordance with the relevant WAEMU convergence criterion. Prudent fiscal policy in the context of Senegal's continued

membership in the WAEMU's regional monetary and exchange rate policies will in turn help keep inflation in check.

7. **The government will make every effort to improve the composition and efficiency of expenditure.** It will adjust the expenditure mix by reducing current expenditure in order to boost capital spending. The government will reduce current expenditure by at least one percentage point of GDP between 2009 and 2013 and will conduct a detailed analysis of the composition of expenditure with a view to increasing capital spending. The government will also improve its tracking of poverty-reducing spending through improved data collection and better definition and targeting of expenditure in coordination with the World Bank and in the context of the PRSP 2011–15. A semi-annual indicative floor for social spending is incorporated in the program. Social spending is currently defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. The government will help the most underprivileged segments of the population through the expansion of conditional cash transfers to the poorest households, which is much better targeted than alternatives such as general price subsidies. The government will also expand the school canteen program, which helps strengthen household purchasing power and improve school enrollment rates and student performance.

8. **Achieving the government's growth objectives should be supported by scaling up infrastructure investment**. The government's investment program aims to reduce infrastructure constraints to improve competitiveness and increase exports of goods and services, consistent with the PRSP. Key investments for the period 2010–2012 include the following:

- construction of the Dakar-Diamniadio toll highway and its extension to the Blaise Diagne International Airport, Thiès and Mbour;
- road rehabilitation (Richard Toll – Ndioum and Ziguinchor – Vélingara);
- irrigation and water resource management;
- extension of rural electrification programs; and the
- Fast Track Project (building of classrooms with support from the World Bank).

9. **The government intends to finance its investment plans through combining alternative sources of financing, based on a sound borrowing policy in order to preserve public debt sustainability.** To this end, the government will continue to favor concessional financing and, in general, neither contract nor guarantee external borrowing on nonconcessional terms. Any new nonconcessional borrowing or any guarantees by the government or other public entities will be subject to a continuous assessment criterion (see

below) (quantitative assessment criterion). The government is aware that any nonconcessional financing must be linked to economically profitable projects (as assessed by an internationally reputable entity) and should not jeopardize public debt sustainability. The government will consult with IMF staff well in advance regarding any exceptions.

10. **Although concessional donor financing and domestic/regional financing will remain the main sources of financing in the near future, given the size of the investments concerned, the government will need additional resources.** The government therefore intends to contract external nonconcessional loans without compromising debt sustainability. It undertakes to explore appropriate financing options so as to limit overall financing costs. More particularly, in the event that the nonconcessional financing obtained exceeds project financing needs, the government undertakes to buy back its current nonconcessional debt.

11. **Nonconcessional financing will be used exclusively for the extension of the Diamniadio toll highway towards the Blaise Diagne International Airport, Thiès, and Mbour**. The government estimates the cost of this project at CFAF 224 billion over the duration of the program, which corresponds to an annual average of around 1–1.5 percent of GDP. The annual borrowing profile and conditions over the duration of the program will be finalized when the planning, implementation schedule, and financing of the project are confirmed. Studies carried out by the authorities and by an international consultant suggest that the economic profitability of this project is between 14 and 24 percent depending on the various hypotheses. To ensure that the resources are used for the planned investments, the nonconcessional financing will be deposited in an escrow account from which only highway extension payments will be made. Full information on (i) the project; (ii) the status of its planning and execution; (iii) the details of financing and updates on the cost of the works; and (iv) the escrow account, shall be posted on a monthly basis, within two weeks following the end of the month, on a dedicated government website starting from March 2011 (structural benchmark, March 31, 2011). An initial audit of the use of the funds will be conducted three months after the start of work and the report published on the dedicated government website (structural benchmark, July 31, 2011). The program includes an adjuster for the deficit related to project expenditures.

12. **The government would also like to be able to tap alternative sources of financing to fund its investments, even if the 35 percent concessionality threshold is not quite attained.** The government is seeking, in particular, a nonconcessional financing envelope of a maximum of CFAF 30 billion in 2011, including a grant element of at least 15 percent. This type of financing will not increase the fiscal deficit. The economic and social profitability of projects financed in this way must be assured. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide all the necessary prior information making it possible to ascertain the level of concessionality of the

loans as well as a brief summary of the projects and their profitability, including an evaluation by the government or the lender. The government will incorporate in subsequent MEFPs a description of the use of the funds and a status report on the implementation of the projects in question.

13. **Prudent fiscal borrowing policies will help contain external debt and the government will improve its debt management by taking the following measures:**

(a) Creation of a new entity, by means of a regulatory text, with responsibility for managing the domestic and external public debt portfolio as well as market interventions (structural benchmark, April 15, 2011). The organizational chart and a debt management procedures manual will need to be finalized by end-September 2011 at the latest (structural benchmark, September 30, 2011). The entity will be operational in early 2012 (structural benchmark, January 15, 2012). It will assume responsibility for debt issuance and repayment as well as for the management of on-lent debt and guarantees granted to public and private enterprises. The risks of these operations must be explicitly taken into account in the semi-annual public debt sustainability analysis. The entity will maintain regular contacts with potential investors;

(b) In the interim, all data on the public debt will be centralized, irrespective of the origin of the loans contracted, including the debt of public enterprises;

(c) The government will establish a national public debt policy by preparing a medium-term debt management strategy, which will be annexed to the budget starting from the 2013 budget;

(d) The government will take steps to strengthen the legal and institutional framework by modifying the legal basis of the public debt committee in order to give it greater weight, resources, and authority to act, and strengthen its capacities.

14. **The government will also improve its treasury management and take the following measures:**

(a) To improve treasury management, a committee will be set up to monitor budget expenditure execution. The committee will be responsible for examining and proposing arbitration decisions on budget expenditure execution in line with the pace of cash flow execution arising from the regularly updated weekly and monthly cash flow plans. To that end, the General Directorate of Government Accounting and Treasury (DGCPT) will prepare an order establishing the powers, composition, and operating procedures of the committee (structural benchmark, January 31, 2011);

(b) Following the recent completion of the census of government accounts, the government will formulate a strategy and timetable for the establishment of a single Treasury account (structural benchmark, September 30, 2011). This single account is understood to be a tool for optimizing government cash flow management by means of centralization in Treasury accounts and facilitation of adjustments as the need arises. Regarding the practical modalities, there are several options, including reducing the opening of bank accounts to the strictest minimum necessary, periodic automatic settlement of collection accounts opened on behalf of the revenue collection agencies, a requirement for all entities to open deposit accounts at the Treasury for holding any subsidies paid through the government budget, management by the Treasury of the resources made available to such entities by development partners where such resources take the form of loans repayable by the government, etc. A system of this kind would make it possible to end the dispersion of government resources in bank accounts where they often lie dormant. In a second phase, the government will establish a single Treasury account to strengthen the government's day-to-day cash management. In that regard, a critical thrust of the Strategic Development Plan of the Treasury Administration over the next five years is the improvement of cash management and diversification of financial instruments offered by the treasury. The government will support the DGCPT in implementing these actions and achieving the relevant objectives.

Raising Revenue to Create More Fiscal Space for Priority Spending

15. **The government intends to increase tax revenues as a percent of GDP by 2013.** Tax revenues are already high compared to other countries in the region, but have come under pressure as a result of external shocks in 2008 and 2009. The main aspects of the reform will focus on (i) rationalizing tax expenditures, (ii) improving tax and customs administration, and (iii) improving the tax system more generally with the help of an IMF technical assistance diagnostics mission on the tax system. After this mission, the government will update its reform plan and submit a tax reform strategy to the Council of Ministers (structural benchmark, March 31, 2011). The strategy will include the precise areas and timetable of reform and, if possible, a preliminary estimate of their impact on revenue.

16. **The government will focus on reducing tax expenditures to raise revenues and increase the transparency and efficiency of the tax system**. The government has conducted analyses of the costs and benefits of tax expenditure in consultation with domestic and international partners and is beginning their reduction in the 2011 budget. Going forward, key milestones in reducing tax expenditures will be as follows:

(a) Rationalize the management of the arrangements governing the exemption applicable to petroleum products, in particular by entrusting this regime to staff of the tax administration (DGID) and customs (DGD) (in 2011);

(b) More effectively manage tax expenditures pertaining to headquarters agreements and the Vienna Convention;

(c) No further memoranda of understanding with enterprises and no renewal of current MOUs upon their expiration (effective 2011);

(d) Strengthen the culture of evaluation and foster the sharing of results. In addition to performing an ex ante assessment prior to the adoption of any new tax expenditure, it will be desirable to conduct strict monitoring and assessment of any tax incentive measures remaining within the system. Accordingly, periodic assessments should be carried out, through the adoption of clearly defined indicators making it possible to ensure the effective attainment of objectives underlying the adoption of the tax incentive in question (beginning in 2011);

(e) The Ministry of Economy and Finance will be responsible for the coordination of all tax reforms and will systematically encourage consultation with all participants in the tax chain. The government undertakes to put in place a new, simple, and efficient general tax code containing proper incentives (in 2011), that abolishes all special relief arrangements (*régimes dérogatoires*) that have proven to be inefficient and excessively complex as well as costly to manage; and

(f) Strengthen the staffing of DGID so as to maintain its performance levels. This will involve, in particular, addressing (i) technical skill deficiencies in the land registry, replacement of staff to fill the gap arising from the large number of planned retirements in the next few years.

17. **The government will modernize tax administration on the basis of the strategic tax administration plan developed by the DGID. The following key actions will be taken**:

(a) Strengthen computerization of all tax, land registry, real estate, and government property operations (remote procedures, computerization of the Land Registry, etc.) in the context of integrated management, to ensure greater transparency and enhance the efficiency of services.

(b) Plan to streamline the organization of the external services of the DGID. The purpose will be to create by end-2012 inter-regional operational directorates established in Dakar and in certain key communities in regional areas of Senegal. At the same time, the current directorates, which are primarily operational, should become functional structures primarily designed to assist the General Director in his managerial functions. Such a shift would reduce the number of functional structures by merging some based on criteria of relatedness and rational management.

(c) Use more segmentation of tax payers and improve risk management, in particular by creating, besides the large taxpayer unit that already exists, two specialized units for medium-sized enterprises in the department of Dakar that would focus on the 90 percent of enterprises that generate most VAT and corporate tax revenue (by around end-2011); pursue and expand the mechanism for the electronic archiving of documents at the Bureau of Documentation.

18. **The government will modernize the customs administration on the basis of the strategic plan developed by the DGD.** The following measures are envisaged:

(a) Rollout of the portable customs computer system GAINDE 2010 in December 2010 and broadening the scope of automated customs clearance to encompass the entire national territory by December 2011;

(b) Creation of databases on maritime information (BATAVIS*)* and a national information and documentation file (*Fichier National d'Informations et de Documentation* (FNID)) by end-June 2012;

(c) Strengthen efforts to combat customs evasion by: (i) full-scale implementation of the 24-hour operation of port services in order to speed up the processing time and relieve the backlog in the port's facilities, by end-June 2011; (ii) the rollout of a system for the electronic measurement of petroleum products by March 2011; and (iii) upgrading of maritime surveillance through the pooling of resources on the basis of a partnership with the National Navy, the Naval Administration, or other entities in March 2011.

(d) Greater importance will be attached to risk detection and management. For this purpose, the government will put in place a risk management application in GAINDE to integrate all customs data and master the system by end-December 2011. The government will also focus on improving the management of training and human resources while easing red tape for the private sector.

(e) Computerization of administrative and customs procedures in December 2012.

Strengthening PFM and governance

19. **The government is committed to building on recent progress in improving public financial management and governance and taking into account the latest WAEMU Directives.** The reforms will be based on the Plan de Réformes Budgétaires et Financières (PRBF, September 2009)—agreed between the government and development partners and

based in part on the 2007 PEFA (Public Expenditure and Financial Accountability) report—and more recent IMF technical assistance (in March 2010). The government is committed to maintain the progress that has been made so far in terms of budget preparation, modification and execution as well as improvements in accounting quality and the timely presentation of accounts. To advance reforms further, the government plans to:

(a) Submit the budget review law for 2006 to Parliament by end-March 2011 and the budget review laws for 2007, 2008, and 2009 by end-September 2011;

(b) Submit the draft organic law on budget laws to Parliament by end-December 2010;

(c) Adopt the decree pertaining to the General Regulations governing Public Accounting (RGCP) by end-June 2011;

(d) Adopt the decree pertaining to budget nomenclature by end-July 2011;

(e) Adopt the decree pertaining to the government chart of accounts by end-August 2011;

(f) Adopt the decree pertaining to the government financial operations table (TOFE) by end-September 2011;

(g) Adjust each annual budget through a supplementary budget or, if necessary, two supplementary budgets, the first one in the middle of the year and the second one towards the end of the year;

(h) Further decentralize the payment authorization process to five additional ministries by end-December 2010. Launch a capacity building program for ministries in 2012 on the new legal and regulatory framework. Test the program-based budget nomenclature in two (2) sectoral ministries (environment and justice) in 2013.

(i) Better capture the fiscal risks associated with public sector operations and the financial flows related to quasi-fiscal activities of public enterprises and private enterprises, where applicable, as well as other public entities, including local governments, in an annex to the initial budget. The annex will also list contingent liabilities, resulting, in particular, from loans or other commitments of said enterprises, public entities (including SENELEC), or local governments, backed or guaranteed by the government, as well as PPPs;

(j) By end-December 2011, conduct a PEFA assessment to evaluate progress in relation to the November 2007 PEFA.

(k) Support the DGCPT in its reforms aimed at improving the information systems (ASTER, COLLOC, etc.) and increase its operational staff;

(l) Define and apply a harmonized financial and accounting regime by category of public entity (government health agencies, universities, and agencies, etc.).

20. **The government is determined to plan operating expenditure in a realistic manner.**

(a) Regarding spending on utilities, the government will conduct an exhaustive inventory of its water, electricity, and telephone service contracts and establish the suppliers what the central government is responsible for. It will strive to provide budgetary allocations that cover the cost of utilities. Following agreement on a standard format, utility invoices must be forwarded on a bi-monthly basis to the appropriations managers who will take all the necessary steps to ensure that payment is provided as a matter of priority. The payments must be executed by the due date and duly supported by proper, detailed invoices. The government is determined to put in place a system for the management of its water, electricity, and telephone bills by drawing up an action plan (structural benchmark, February 28, 2011) including the following measures: (i) establishment of a list of ministries' water, electricity, and telephone bills; (ii) conclusion of an agreement with the supplying companies (SDE, SENELEC, and SONATEL) on a standard format for detailed invoices; (iii) obtaining from these companies full detailed information, in keeping with the agreed invoice format, on past consumption levels to enable each ministry to make realistic projections for budgetary purposes; (iv) issue a MEF circular explaining to ministries how to present and assess their utility expenditure allocations in the budget; (v) treat utility expenditure as priority spending in the commitment and cash flow plans, and order the comptrollers of financial operations to suspend all other payment orders until the ministry has settled its utility expenditure arrears;

(b) Regarding contractuals in the education sector and the beneficiaries of higher education allowances (scholarships and grants), the government, in conjunction with the World Bank, will carry out an assessment of the budgetary needs and ensure that the relevant expenditures are included in the budget forecast. An IGF audit has been verifying its findings with counterparts in education since August 20, 2010. Findings will be summarized and a report produced by December 31, 2010.

21. **The process of planning, evaluating, and selecting public investment projects will be improved to raise the productivity of spending.** Present practice and intentions for the future are as follows:

(a) Sectoral ministries and other public and para-public entities are being provided each year with program authorizations consistent with the macroeconomic framework derived in consultation with the IMF and the priorities set forth in the PRSP. These program authorizations are accompanied by an indicative payment appropriations schedule for the next three years; the actual payment appropriations recorded for each annual tranche and the schedule for the following years are revised every year to take account of the actual advancement of projects underway and revisions to the macroeconomic framework agreed with the IMF; the payment appropriations needed to ensure ongoing work under current projects are included in the budget every year as a priority; the program authorizations and payment appropriations related to new projects are included in the budget after taking account of the ongoing needs of projects underway and within the limits of the remaining room in the macroeconomic framework agreed with the IMF;

(b) In the education, health, environment, and agriculture sectors, planning structures have been set up. In the context of the PSI program, the government has taken steps to equip these entities to be able to analyze projects and programs and determine their economic and social returns using the cost-benefit method as well as their financial return for the concessionaire or partner, where applicable. The government is determined to have all new projects and programs analyzed, where the cost is greater than or equal to CFAF 250,000,000 in these sectors (education, health, environment, and agriculture).[1] Recurrent costs will be taken into account for each project.

(c) To harmonize the evaluations and facilitate the process, the Planning Directorate, in conjunction with the actors concerned, will prepare a “Guide for Project Preparation” before end-March 2011 and a “Guide for the Evaluation of Projects with an Economic Return” (structural benchmark, July 31, 2011). These guides will enable line ministries to evaluate projects and to accurately prepare documents on proposed programs that are to be submitted to the Ministry of Economy and Finance.

(d) In addition to the four abovementioned test sectors, the government intends to create dedicated planning units in six other sectors, include transport and internal security by 2012;

(e) Beginning in 2011, the Ministry of Finance will begin reviewing, at the technical level, all completed project analyses to ascertain whether projects exceed a minimum threshold of economic and social return.

[1] This threshold applies to all programs and projects carried out in the sector by both the central government and government agencies.

Private Sector Development

22. **The government is committed to advance reforms expeditiously to support private sector development,** with a particular focus on the energy and financial sectors as well as the water and sanitation sectors, the business climate, and governance.

Energy sector

23. **The measures adopted by the government in 2010 are as follows**: With regard to SENELEC, (i) continuation of the program to reduce losses that are not technical in nature and strengthen business activities; (ii) criminalization of fraud; (ii) reopening of the GTI power station in April 2010; and (iv) start of measures to unbundle SENELEC's activities beginning with the separation of accounts. With respect to SAR, since September 2006, the government has made major strides which have allowed for the resumption of refining activities, in particular, the replacement of the FOB MED benchmark contract with the CIF NWE contract (Rotterdam-Dakar), the establishment of the Fund for Safeguarding Imports of Petroleum Products or FSIPP (*Fonds de Sécurisation des Importations en Produits Pétroliers)*, and the granting of a margin of temporary support for refining (up to 2012). This margin of support has, for instance, made it possible for SAR to obtain a loan through the banking system to repay its debt to suppliers. The government did not provide any payment guarantee to the banks in the context of the SAR financing operation. Finally, in order to have access to sufficient storage capacity to ensure adequate market supplies, in partnership with the DIPROM group, the government established a petroleum products storage depot with a capacity of 164,000 cubic meters on the Mbao site. This partnership resulted in the creation of the company SENSTOCK whose authorized capital of CFAF 12.4 billion is distributed as follows: government of Senegal through PETROSEN (46 percent), DIPROM (34 percent), and SAR (20 percent). However, the government intends to withdraw from the capital of SENSTOCK over time to allow PETROSEN to refocus its activities on upstream petroleum operations. PETROSEN would, therefore, sell its equity in SENSTOCK to the distributors. Concerning SAR, its capital is currently majority-owned by the private sector, with 34 percent by the Saudi Binladen Group (SBG) and 20 percent by Total. The government, through PETROSEN, currently holds a 46 percent share of the capital and plans to divest 17 percent to SBG, thus retaining only a 29 percent strategic participation in the capital of SAR.

24. **The government is committed, pending the definition of a recovery and restructuring plan for the energy sector, to implementing the following measures in the very short term with a view to making up the shortfall in SENELEC's production capacity and mitigating its cash flow difficulties so as to guarantee adequate and continuous power supplies:**

(a) pending the coming on stream of the coal-fired power plant, gradually install, starting November 2010, additional power capacity of 100MW. This gradual installation, aimed essentially at making up for the existing capacity shortfall and limiting revenue losses, will be done in a manner that will be neutral for the government's 2010 budget. Possible options include the rental of generators by SENELEC;

(b) the transfer of SENELEC's fuel imports to SAR;

(c) absorption by the government of SENELEC's loss of earnings resulting from the level of electricity rates in 2010. The amount of the loss to be offset is estimated at CFAF 13 billion. It will be included in the 2011 budget within the agreed macroeconomic framework. The government will make available to the World Bank and the French Development Agency (AFD), by end-November 2010, all the necessary documentation to enable disbursement of the second tranche of budget support estimated at a total of CFAF 16 billion. This equals a remaining amount of CFAF 7 billion for the recapitalization of SENELEC and CFAF 9 billion to be on-lent by the government to SENELEC in conformity with the energy sector reform program supported by the World Bank and the AFD; and

(d) the government intends to set up the oil and gas downstream regulatory authority (*l'Autorité de Régulation de l'Aval du sous-secteur des Hydrocarbures* (AURAH)) by December 2010.

25. **The government is committed to preparing and implementing a restructuring and recovery plan for the energy sector**. The plan will be prepared, and its implementation monitored, by a committee whose membership will be representative of all stakeholders in the sector (institutions, professionals, workers, consumers, etc.) as well as development partners and other relevant persons. The order establishing the committee has already been enacted (October 2010). The preparation of the restructuring plan (structural benchmark, January 2011) requires that diagnostic studies and technical, accounting, and financial audits of SENELEC and SAR are first conducted. A study of the sector will also be carried out to analyze the various financial flows. The government intends to commission internationally reputable firms to carry out these studies and audits.

The plan resulting from these studies and audits should give the government a better understanding of the functioning of the sector. It should include management tools and monitoring indicators that not only help to ensure better corporate governance of the key enterprises in the sector, SENELEC and SAR, but also serve as early warning mechanisms to facilitate rapid decision-making.

The plan should also deal with controlling the operations of SENELEC and SAR. It should make it possible, over the period 2010-2014, to ensure the financial health of the sector, better balance between power supply and demand, and efficient fuel, crude oil, and butane gas supplies to SENELEC and SAR to guarantee an optimal quality of service at lowest cost. To that effect, a pricing policy needs to be adopted, with particular attention to the price fixing and adjustment mechanism, consistent with the objectives of the plan. If needed, existing pricing legislation and regulations should be reformed. The restructuring plan should also outline procedures for clearance of the debt due to SENELEC by local governments for public lighting as well the outstanding amounts owed by hospitals, universities, and well drilling works (*forages*), amounting to an estimated total of CFAF 17 billion in 2010. In addition to these debt settlement procedures, the plan should include measures aimed at avoiding any further accumulation of such debt.

Regarding SENELEC's tax debt, currently estimated at CFAF 25 billion, the restructuring plan should outline procedures for its clearance. It should also provide for measures to ensure strict compliance by SENELEC with all its tax and customs obligations.

Regarding the planned institutional reform, involving the unbundling of SENELEC's activities (production, transport, and distribution), in light of the crisis situation in the sector and pending a return to normal conditions, the government has decided to suspend the reform. The diagnostic studies and sector audits currently being launched should provide answers as to the appropriateness of unbundling given the challenges and objectives being addressed in the restructuring plan. The plan should also put forward options for increasing or improving private sector participation in the power sector. In the interim, SENELEC needs to put in place an analytical accounting system with cost and profit centers.

Water and Sanitation Sector

26. **The government is committed to taking steps to maintain the financial equilibrium of the water and sanitation sector.** This involves, in particular, (i) establishing a mutual debt settlement arrangement, (ii) negotiating a moratorium on the payment of arrears, (iii) timely payment of all current water bills by the various administrations, and (iv) carry out a review of water tariffs and simulations of tariff adjustments aimed at generating budget savings of CFAF 7 billion in 2011. The simulations will provide indications of the tariff increases needed in 2011.

Financial Sector

27. **The government will implement the action plan for the second national dialogue on credit which was held on March 16-17, 2010**. A committee, set up by the Minister of Economy and Finance, is responsible for monitoring the implementation of 65 measures under 11 strategic themes. These themes include reforms relating to financing, the banking sector, insurance sector, microfinance institutions, and other financial intermediaries, as well

as the legal environment, and arrangements for access to financial services. The following are considered priority measures:

(a) Establishment of the legal framework allowing for the creation of private credit registers and rating agencies;

(b) Adoption of a specific law to support the development of leasing activities in Senegal (structural benchmark, June 30, 2011);

(c) Strengthening banking penetration and the spread of cashless bank payment instruments;

(d) Improving banking supervision. In light of the role of foreign banks in Senegal, the monetary and supervisory authorities will strengthen their policy of cooperation with the competent authorities of the relevant countries for more effective banking supervision to maintain the stability of the banking system. Regarding microfinance, efforts should be made to achieve greater coordination between the interventions of the various donors, on the one hand, and those of the two ministerial departments responsible for the microfinance sector, on the other;

(e) Searching for private majority shareholders for all banks in which the government holds a majority interest, in compliance with the WAEMU Council of Ministers' recommendation that government shareholdings in banks be gradually reduced to, or maintained within, the 25 percent maximum limit.

(f) Regarding *Poste Finance*, it is important that the necessary steps be taken to accelerate the process of institutional change underway in the company in line with its assigned missions to ensure that its operations are in conformity with the existing legal and regulatory framework. If it is not changed into a bank or a financial institution, the company should revert to its status as a government entity if it is to continue taking deposits. In that regard, the government has decided to conduct a performance evaluation study of *Poste Finance.* The findings of the study, to be completed in the first quarter of 2011, should provide the government with all the information it needs to make a decision on the preferred option.

Other factors for improving the business climate and governance

28. **The government has started to give new impetus to business climate reforms.** The immediate aim in the upcoming years is to improve the business climate by implementing the decisions adopted in the context of the Presidential Council on Investment, which would also help to raise Senegal's ranking in the Doing Business Indicators. The focus

will be placed inter alia on computerization of procedures. The following reforms will be put in place on a priority basis over the next three years:

(a) Establishment of a one-stop shop within the mayoral offices in order to examine applications for building permits, and computerization of the process for the issuance of building permits;

(b) Acceleration of the computerization of the Land Registry with a view to making it available online so as to ensure the publication of property rights in real time, including sales of government property;

(c) Introduction of a combined mechanism for real estate registration and notification;

(d) Adoption of texts amending real estate legislation (law establishing the regime for real estate ownership and its implementing decree);

(e) Lowering the cost of transferring ownership. The government may facilitate access to property ownership by reducing registration duties from 15 percent to 10 percent (to be considered in the context of the reform of the tax system);

(f) Expedited recruitment of staff for the land registry office, in particular surveyors.

(g) Computerization of the register of real estate credit and commerce (RCCM), in coordination with the development partners;

(h) Alignment with OHADA provisions on the functioning of the RCCM and the introduction of judicial statistics.

29. **With regard to economic governance, the government will endeavor to put in place the following actions:**

(a) Implement the reform of the Audit Court giving it the authority to produce an annual assessment of government accounts and issue an opinion on the draft budget review laws;

(b) The government has adopted a decree that changes the procurement code to address what the authorities viewed as various shortcomings and particularly for security reasons. The authorities remain committed to limiting the share of contracts awarded on a noncompetitive basis to 20 percent of all government contracts (<u>indicative target</u>) and to ensure the availability of appropriate resources to enable the Public Procurement Regulatory Authority (ARMP) to function autonomously.

(c) Implement measures to ensure the availability of adequate resources for the National Council against Nontransparency, Corruption and Extortion.

(d) Implement the new code of corporate governance;

(e) Implement reforms to make land transactions more transparent and publish government land sales in the private domain. An inventory of both public and private domain government property (improved and unimproved) will be carried out by June 2011 and regularly updated. All sales of government property must be conducted in accordance with the laws and regulations in force and the proceeds of the sales recorded in the budget.

III. The Policy Agenda for the Remainder of 2010 and 2011

Macroeconomic context

30. **Growth in Senegal is expected to continue to recover as the impact of the external shocks wanes.** The government's program is based on reaching an economic growth rate of some 4.4 percent in 2011. Inflation is expected to be below the 3 percent threshold set in the WAEMU convergence pact. The current account of the balance of payments (including official transfers) is projected to slightly widen to some 9 percent of GDP and to be financed by government loans and foreign private capital, including modestly rising foreign direct investment. Senegal's overall balance of payments is projected to be positive and contribute to the Union's foreign exchange reserves.

31. **These projections are subject to substantial risks.** A more subdued international recovery than anticipated, or return to recession, could negatively affect these projections. Marked declines in remittances, official aid, available financing on the regional market, exports, or foreign direct investment would have a negative impact on economic growth and the balance of payments. Also, continued implementation of energy sector reform is essential to minimize risks of a growing adverse impact on economic activity and public finances.

Fiscal Policy

32. **The targeted overall fiscal deficit is 4.8 percent of GDP in 2010 (not counting the settlement of extrabudgetary spending).** The government will submit a supplementary budget for 2010 to Parliament in line with the macroeconomic framework agreed with Fund staff (prior action). The supplementary budget will reallocate current and capital expenditures to cover, in particular, additional expenses related to the costs of contractuals in the education sector.

33. **The government intends to settle any remaining extrabudgetary spending that would have been approved and become "due and payable" as set out in its October 2010 communiqué, and to publish a press release summarizing results, including the results of the fiscal year 2009 audit (**structural benchmark, June 30, 2011). These payments, if any, will finally settle the 2008 issue of extrabudgetary expenses and public institution and agency debt.

34. **For 2011, the budget submitted to parliament in October 2010 is in line with the macroeconomic framework agreed with Fund staff (prior action).** The budget has a deficit of 4.5 percent of GDP (excluding spending related to the investment for the highway extension). Furthermore, it keeps social outlays at 35 percent of total spending, and increases capital expenditure to over 11.5 percent of GDP. The budget includes a contingency reserve equal to 5 percent of total appropriations for current spending (excluding wages) and domestically-financed capital expenditure (excluding capital spending earmarked for the highway), to allow the budget to be executed even in case of urgent and unforeseen spending or adverse changes in revenue or financing. The level of availability of the reserve will be included in the SIGFIP tables sent to Fund staff. To address past underbudgeting for utilities and education, the 2011 budget includes more realistic appropriations. All new spending requests will be addressed within the framework of the existing budget envelope.

Program Monitoring

35. **Assessment criteria for end-December 2010, end-June 2011, and end-December 2011 and quantitative indicators for end-March and end-September 2011 have been proposed** in order to monitor program implementation in 2010 and 2011 (see MEFP Table 1 below). The government and Fund staff have also agreed on the prior actions and structural benchmarks in MEFP Table 2. Reviews will take place at 6-month intervals. The first review should be completed by end-June 2011, the second review by end-December 2011, and the third review by end-June 2012.

Table 1 of MEFP. Quantitative Assessment Criteria and Indicative Targets for 2010-11 1/
(CFAF billions, unless otherwise specified)

	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
			Proposed		
Assessment criteria					
Floor on the basic fiscal balance 2/	-119	*-24*	-48	*-72*	-96
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/ 5/	0	500	500	500	500
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	0	0	0	0
Ceiling on the amount of the budgetary float (*depenses liquidees non payees par le Tresor*)	50	*50*	50	*50*	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent 2/ 4/	0	30	30	30	30
Indicative targets					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	*20*	*20*	*20*	*20*	*20*
Floor on social expenditures (percent of total spending)	*35*	…	*35*	…	*35*

1/ Indicative targets for March and September 2011, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.
2/ Cumulative since the beginning of the year.
3/ In US$ millions for the period 2011–13.
4/ Monitored on a continuous basis.
5/ Cumulative since start of the second PSI.

Table 2 of MEFP: Structural Benchmarks, 2010-11

Measures	MEFP §	Implementation Date	Benchmark for review	Macroeconomic significance
CONTAINING THE BUDGET DEFICIT				
Submit to Parliament a supplementary budget for 2010 consistent with the macroeconomic framework agreed with IMF staff	32	November 22, 2010	Prior action	Macroeconomic stability
Submit to Parliament a budget for 2011 consistent with the macroeconomic framework agreed with IMF staff, and including a contingent reserve equal to 5 percent of current nonwage expenditure and domestically-financed capital expenditure excluding expenditures for the highway extension	34	October 15, 2010	Prior action	Macroeconomic stability
INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT				
Issue decree on the powers, composition and operating procedures of the committee monitoring budget execution	14	January 31, 2011	1st	Improve cash flow management
Submit tax policy reform strategy to the Council of Ministers	15	March 31, 2011	1st	Improve tax policy and increase revenues
Create a new entity, by means of a regulatory text, with responsibility for managing domestic and external debt and market interventions	13	April 15, 2011	1st	Improve debt management
Prepare a guide for the evaluation of projects with an economic return	21	July 31, 2011	2nd	Improve investment planning
Create the organizational chart and procedures for the entity responsible for managing the domestic and external public debt portfolio as well as market interventions	13	September 30, 2011	2nd	Improve debt management

CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT				
Prepare an action plan to achieve realistic budgeting for, and regular payment of, utilities by all ministries	20	February 28, 2011	1st	Strengthen transparency and credibility of the budget
Settle the final amounts, if any, of extrabudgetary expenditure and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit	33	June 30, 2011	2nd	Strengthen public financial management and fully normalize financial relations with the private sector
Formulate a strategy and timetable for the establishment of a single Treasury account	14	September 30, 2011	2nd	Strengthen public financial management
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE, AND RAISING EFFICIENCY IN THE FINANCIAL AND ENERGY SECTORS				
Prepare a restructuring and revitalization plan for the energy sector taking into account the results of the financial and operational audits	25	January 31, 2011	1st	Strengthen the efficiency of the energy sector and transparency of public finances
Publish monthly on the government's website full information on the extension of the highway, including (i) project status; (ii) planning and execution; (iii) financing and costs, and (iv) escrow account balance, within two weeks following the end of the month, starting from March 2011	11	March 31, 2011	1st	Increase transparency in infrastructure investment
Conduct an initial audit of the use of the funds earmarked for extension of the highway three months after the start-up of works and publish the report on the government's website (structural benchmark)	11	July 31, 2011	2nd	Improve the transparency of infrastructure-related investments
Finalize legislation supporting leasing activities	27	June 30, 2011	2nd	Improve the efficiency of the financial sector

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Dakar, November 10, 2010

1. This technical memorandum of understanding (TMU) defines the quantitative 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 2010-2011. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation

I. PROGRAM CONDITIONALITY

2. The quantitative assessment criteria for end-December 2010, end-June 2011, and end-December 2011 and quantitative indicators for end-March and end-September 2011 are shown in Table 1 of the MEFP. The prior actions 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 capital expenditure related to extension of the highway, concessional externally financed capital expenditure, drawings on on-lent loans, expenditure funded with HIPC- and MDRI-related resources, and expenditure related to the settlement of agency debt and extrabudgetary arrears identified in the July 2009 audit and included in the first supplementary budget for 2010. Interest charges on financing of the highway extension are excluded in 2011. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses ordonnancées prises en charge par le Trésor*). This

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 30, 2010 is –CFAF 119 billion. It is calculated as the difference between budgetary revenue (CFAF 1,253 billion) and total expenditure and net lending (CFAF 1,705 billion), excluding externally financed capital expenditure (CFAF 263 billion), drawings on on-lent loans (CFAF 10 billion), and expenditure funded with HIPC-and MDRI-related resources (CFAF 61 billion).

Reporting requirements

6. During the program period, the authorities will report provisional data on the basic fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 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. Social Expenditure

Definition

7. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. This criterion is set as a floor in percent relative to total spending, excluding capital expenditure related to the extension of the highway (and in 2011 also excluding interest charges on financing of the highway extension).

Reporting requirements

8. The authorities will report semi-annual data to Fund staff within two months following the end of the year.

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 but not yet paid by the Treasury (the difference between *dépenses liquidées* and *dépenses payées)*. The

assessment criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

Reporting requirements

10. The authorities will transmit to Fund staff on a weekly basis (i.e., at the end of each week), and at the end of each month, a table from the expenditure tracking system (SIGFIP) showing all committed expenditures (*dépenses engagées*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses payées*). The SIGFIP table will exclude delegations for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

E. Spending Undertaken Outside Simplified and Normal Procedures

11. This assessment criterion is applied on a continuous basis to any procedure other than the normal and simplified procedures to execute spending. It excludes only spending undertaken on the basis of a supplemental appropriations decree in cases of absolute urgency and need in the national interest, in application of Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and Prime Minister.

12. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 10, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. Government External Payments Arrears

Definition

13. External payments 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 15 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

14. The authorities will promptly report any accumulation of external payments arrears to Fund staff.

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

Definition

15. This assessment criterion applies to debt with nonresidents contracted or guaranteed by the government. 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. 12274-(79/140), last amended by Executive Board Decision No. 14416–(09/91), adopted August 31, 2009, but also to commitments contracted or guaranteed by the government for which funds have not been received. The criterion does not apply to:

(i) CFAF debt contracted or guaranteed by the government with WAEMU residents;

(ii) CFAF debt initially contracted or guaranteed by the government with WAEMU residents subsequently acquired by nonresidents;

(iii) CFAF government or government-guaranteed debt where the agreement is between the government and a WAEMU resident entity and there is no ensuing contractual obligation between the government and a nonresident entity, regardless of whether the resident WAEMU entity resells the debt to a nonresident;

(iv) debt rescheduling transactions of debt existing at the time of the approval of the PSI; and

(v) external debt contracted by the airport project company (AIBD) to finance construction of the new Dakar Airport.

(vi) short-term external debt (maturity of less than one year) contracted by SENELEC to finance the purchase of petroleum products.

16. This assessment criterion is measured on a cumulative basis from the time of approval of the program and applies continuously. No adjuster will be applied to this criterion.

17. 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.

18. Any external debt of which the present value (PV), 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.[1] The discount rate used for the calculation of PV is based on the OECD commercial interest reference rate (CIRR) for the currency of payment.[2] [3] For debt with a maturity of more than 15 years, the average of the ten-year CIRR is used to calculate the grant element. The average of the six-month CIRRs is used for debt with shorter maturities. In addition, the CIRR is refined by an adjuster based on the maturity of the debt (0.75 percentage points for maturities of less than 15 years, 1 percentage point for maturities of between 15 and 19 years, 1. 15 percentage points for maturities of between 20 and 29 years, and 1.25 percentage points for maturities of 30 years or more).

19. A ceiling of US$500 million applies over the period 2011-13 for nonconcessional financing tied to the highway extension Diamniadio-International Airport Blaise Diagne/Thiès/Mbour. The funds obtained in this way will be deposited in an escrow account from which only highway extension payments will be made.

20. A separate ceiling of CFAF 30 billion in 2011 applies for untied nonconcessional external debt with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

Reporting requirements

21. 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.

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[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

[2] Calculation of net present value should take into consideration all contractual aspects, including maturity, grace period, payment schedule, fees and management costs.

[3] For loans in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the CIRR in SDRs.

H. Public Sector Contracts Signed by Single Tender

Definition

22. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to total public sector contracts.

Reporting requirements

23. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total value of public sector contracts and the total value of all single-tender public sector contracts.

III. Additional Information for Program Monitoring

24. The authorities will transmit the following to Fund staff, 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 30 days, preliminary data on:

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investments Directorate (DDI) on the execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts;
- The provisional balance of the Treasury accounts; and
- Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary

revenues," between the consolidated Treasury accounts and the TOFE for "total expenditure and net lending," and between the TOFE and the net government position (NGP), on a quarterly basis.

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

25. During the program period, the authorities will transmit provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances to Fund staff on a monthly basis with a lag of no more than 30 days. The data will be drawn from preliminary consolidated Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no more than one month after the reporting of provisional data .

26. The government will transmit to Fund staff :

- The monthly balance sheet of the central bank, with a maximum lag of one month;
- 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 financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis.

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