INTERNATIONAL MONETARY FUND

Staff Country Reports

Senegal: Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criteria, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; and News Brief on Executive Board Discussion

In the context of the Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criteria, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Performance Criteria, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries prepared by a staff team of the IMF, following discussions that ended on February 20, 2002, with the officials of Senegal on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on March 20, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **April 5, 2002** updating information on recent economic developments.
- a News Brief summarizing the **views of the Executive Board as expressed during its April 5, 2002 discussion** of the staff report that completed the review.

The document(s) listed below have been or will be separately released:

Joint Staff Assessment of the Poverty Reduction Strategy Paper
Letter of Intent*
Memorandum of Economic and Financial Policies*
Poverty Reduction Strategy Paper—Preparation Status Report

*May also be included in Staff Report.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

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SENEGAL

**Second Review Under the Third Annual Arrangement Under
the Poverty Reduction and Growth Facility and Requests for Waiver of
Performance Criteria, and for Additional Interim Assistance Under the Enhanced
Initiative for Heavily Indebted Poor Countries**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy
Development and Review, Statistics, and Treasurer's Departments)

Approved by Donal Donovan and Masood Ahmed

March 20, 2002

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EXECUTIVE SUMMARY

Background

A three-year PRGF arrangement (for SDR 107 million, or 66 percent of quota) was approved in April 1998. The third annual arrangement (SDR 42.8 million) was approved in February 2001 and the first review thereunder completed in September 2001, while the commitment period has been extended to April 19, 2002. Senegal reached the HIPC Initiative decision point on June 21, 2000.

Recent developments

- The fallout from the September 11 events has been limited to date, and the external current account deficit has narrowed in 2001, owing partly to falling world oil prices. Preliminary results show real GDP growth of 5.6 percent during 2001 and a small increase in inflation to 3.9 percent owing to one-off factors. The government deficit before grants is estimated at 3.9 percent of GDP and the basic fiscal deficit at 0.8 percent in 2001.
- Several end-September and mid-November performance criteria (PCs) related to the second review of the program were missed. Nevertheless, a number of important corrective measures have been taken including the dissolution of SONAGRAINES (previously engaged in collecting and transporting groundnuts), and an increase in power tariffs while discussions on privatization of the power utility (SENELEC) continue.
- Important deviations have been observed for a number of end-December performance criteria that were critical for consideration of the third review under the third annual arrangement. In particular, ceilings on the debt of the groundnut company (SONACOS) and arrears of SENELEC were missed, and the implementation of the groundnut sector liberalization and the pension reform deviated significantly from the program.

Policy discussions and outlook for the period ahead

- The outlook for 2002 is for a slowdown in output growth to 4½ - 5 percent and a decline in inflation to 2 percent during the year. To underpin these objectives, the 2002 budget targets a reduction in the government deficit to 2.6 percent of GDP and a shift in the basic fiscal balance into a surplus of 1.3 percent, on the strength of revenue gains and spending cutbacks. Achievement of these results hinges largely on averting new losses in the groundnut and power sectors after the large ones incurred in 2001. Also, Fund and World Bank staffs have urged the authorities to take a cautious approach to undertaking a package of large infrastructure projects under consideration in order to ensure their economic viability and minimize any fiscal costs.
- The pension reform passed in February 2002 improves the medium-term financial outlook of the civil service pension scheme (FNR) but does not secure its financial

balance over the long term, as originally envisaged. The government is taking measures to stem future losses of the postal service in light of the findings of a recent audit.

- The authorities expect to submit a full PRSP to the Fund and Bank Boards shortly. They are urged to further increase the size and efficiency of public spending on basic social services and to meet as soon as possible the floating HIPC Initiative completion point conditions, including on privatization and public spending on education and health. Furthermore, they are expected to improve the tracking of HIPC-related outlays, based on the findings of recent technical assistance.
- Overall, given the broadly satisfactory compliance with end-September 2001 quantitative PCs, formulation of a suitable indicative macroeconomic framework for 2002, and the remedial measures taken to address some of the deviations from the program in the area of structural reforms—including the dissolution of SONAGRAINES and the belated power tariff hike—staff proposes completion of the second review under the third annual PRGF arrangement. However, it is not proposed to complete the third review under the arrangement, given the extent of deviations from the program observed in a number of end-December 2001 quantitative PCs and the shortcomings observed in the implementation of key pension system and groundnut sector reforms. The authorities are urged to consolidate and broaden structural reforms under a successor PRGF arrangement that is expected to be discussed later this year.

I. INTRODUCTION

1. Discussions for the second and third reviews under the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF) took place in Dakar during October 31–November 14, 2001 and February 8–20, 2002.¹ Staff met with the Prime Minister, the Minister of State and Chief of Staff of the President, the Ministers of Economy and Finance, Energy, and Agriculture, the Minister-Delegate for the Budget, the Vice-Governor and the National Director of the Central Bank of West African States (BCEAO), and other senior officials and private sector representatives. The commitment period under the PRGF arrangement expires on April 19, 2002 without the possibility of further extension. In concluding the first review under the third annual PRGF arrangement and the Article IV consultation on September 28, 2001, Executive Directors expressed concern about the widening of the fiscal deficit in 2001 as a result of acute imbalances in major parastatals. They called for vigorous implementation of the reform agenda in the groundnut and power sectors and emphasized the need to promptly address the deficits of the postal service and the National Retirement Fund (FNR). Senegal's relations with the Fund and the World Bank are summarized in Appendices II and III.

2. In the attached letter and memorandum on economic and financial policies (MEFP; Appendix I) dated March 11, 2002, the Minister of Economy and Finance reviews developments in 2001, outlines policies for 2002, and requests waivers for nonobservance of certain performance criteria for end-September and November 15, 2001.

II. BACKGROUND AND RECENT DEVELOPMENTS

3. **Preliminary 2001 returns broadly confirm the trends and projections described in the staff report for the Article IV consultation and PRGF arrangement review (EBS/01/151; 8/31/01).** Inflation rose to 3.9 percent during the year from 1.3 percent during 2000 (Table 1), owing in part to a spike in foodstuff prices and the one-off effect of the value-added tax (VAT) rate unification at 18 percent in September, but average inflation (3 percent) met the West African Economic and Monetary Union (WAEMU) norm. Despite the uptick in inflation in 2001, external competitiveness has been broadly maintained during the past two years (Figure 1). **The September 11 events have had a limited effect to date on the Senegalese economy**, given that production in the major groundnut, fisheries, and phosphate sectors had already been largely realized beforehand. The drop in world oil prices helped narrow the external current account deficit (excluding current official transfers) by

¹ The missions comprised Messrs. Neuhaus (Head), Yao (Resident Representative), Walliser (all AFR), Moussa (FAD), and Moers (PDR). Other AFR staff included Mr. Mensah-Zekpa and Ms. Jean-Baptiste (Assistant) in November, and Mr. Yülek and Ms. Perez (Assistant) in February. Mr. Barro Chambrier, Executive Director for Senegal, joined the February mission for a few days, and his Advisors, Messrs. Thiam and Guétat, participated in the November and February missions. World Bank representatives also joined the main policy discussions.

2.6 percent of GDP to 6.4 percent in 2001 (Figure 2). Net official international reserves increased by CFAF 71 billion, aided by the improvement in the terms of trade and the dishoarding of French franc balances held by residents ahead of the adoption of the euro in early 2002.

4. **As regards the objectives related to the second review under the third annual PRGF arrangement, end-September 2001 quantitative performance criteria (PCs) were met, except for the ceiling on arrears of the power company SENELEC (Box 1). However, most end-September and mid-November structural performance criteria were missed, reflecting delays in implementing measures in the groundnut and power sectors. In the meantime, the government has put in place a number of corrective measures, especially the dissolution of the entity responsible for collection and transport of groundnuts (SONAGRAINES) and the strengthening of the power company's financial position through a tariff increase, as discussed below.**

5. **Concerning the objectives related to the third review, performance criteria on the basic budget balance and net credit to the government and the benchmark on the government wage bill for end-December 2001 were met.** Compliance with the adjusted credit ceiling, despite shortfalls in tax collections and in foreign financing and privatization receipts, resulted from underexecution of revised spending appropriations, especially domestically financed investment, and accumulation of deposits by other public entities at the Treasury. Nonetheless, the government was not able to phase out statutory advances from the BCEAO by year's end as originally envisaged for all members of the West African Monetary Union (WAMU).² **By contrast, despite the appropriations (some 3 percent of GDP) provided by the September 2001 supplementary budget to cover the losses of the state groundnut (SONACOS) and power (SENELEC) companies, which were premised on avoidance of future losses, the end-2001 PCs on SONACOS debt and SENELEC arrears were missed (Box 2). So were the PC on guarantee deposits of the government and the benchmarks on fiscal revenue and on the postal service and the FNR deficits. The implementation of structural reforms programmed for end-December also had important shortcomings.** As discussed below, the pension reform bill approved by parliament did not eliminate the long-run financial problems of the pension scheme as originally planned, and the targeted liberalization of transport and collection activities in the groundnut sector was achieved only partially. In light of the imminent expiration of the PRGF commitment period in mid-April 2002, both issues will need to be addressed under a possible successor arrangement to be discussed later in the year and, given the significance of the missed quantitative and structural PCs at end-December 2001, staff proposes to not complete the third review.

² The WAEMU council of ministers will reconsider the period for liquidation of BCEAO advances to member governments and set a new deadline during an upcoming meeting.

Box 1. Senegal: Implementation Status of Performance Criteria (*) and Benchmarks for the Second Review		
	Original Timing	Status
A. Quantitative		
Floor on basic budget balance. (*)	September 30, 2001	Met.
Ceiling on net bank credit to the government. (*)	September 30, 2001	Met.
Ceiling on debt stock of SONACOS. (*)	September 30, 2001	Met.
Ceiling on arrears of SENELEC. (*)	September 30, 2001	Not met.
Ceiling on guarantee deposits of the government. (*)	September 30, 2001	Met.
B. Structural		
Announcement of withdrawal of SONAGRAINES from groundnut collection and transport as of the 2001/02 crop year. (*)	September 30, 2001	Not met.
Submission of an action plan for withdrawal of SONAGRAINES to Fund staff.	September 30, 2001	Not met.
Submission of report to (a) clarify flows in the correspondent postal accounts at the treasury during first half of 2001, and (b) develop recommendations to simplify accounting procedures linking the postal service and the treasury. (*)	September 30, 2001	Met.
Revision of the framework agreement (<i>accord cadre</i>) for the groundnut sector. (*)	September 30, 2001	Not met.
Adjustment of electricity tariffs consistent with regulatory formula if SENELEC were not privatized by November 15, 2001. (*)	November 15, 2001	Not met on time.

Box 2. Senegal: Implementation Status of Performance Criteria (*) and Benchmarks for the Third Review		
	Original Timing	Status
A. Quantitative		
Floor on basic budget balance. (*)	December 31, 2001	Met.
Ceiling on net bank credit to the government. (*)	December 31, 2001	Met.
Ceiling on debt stock of SONACOS. (*)	December 31, 2001	Not met.
Ceiling on arrears of SENELEC. (*)	December 31, 2001	Not met.
Ceiling on guarantee deposits of the government. (*)	December 31, 2001	Not met.
B. Structural		
Submission of audit report for SONAGRAINES and SONACOS to Fund staff. (*)	December 31, 2001	Met.
Disengagement of the public sector from groundnut collection and transport and introduction of market-based pricing. (*)	December 31, 2001	Not met (see Box 5).
Submission to parliament of a bill reforming the National Retirement Fund and ensuring its financial balance from 2002 onward. (*)	December 31, 2001	Not met.
Replacement of the levy on imported vegetable oil with a protection mechanism in accordance with WAEMU regulations.	December 31, 2001	Not met on time.

6. The **government deficit** before grants rose to 3.9 percent of GDP in 2001 from 2 percent the year before, and the basic fiscal position (the overall deficit excluding grants, foreign-financed capital expenditure, and lending) shifted into a deficit of 0.8 percent from a surplus of 1.2 percent in 2000 (Table 3). Tax collections were lower than expected, owing to a delay in implementing the single-rate VAT and an unexpected slowdown in imports. With the return to the automatic pass-through formula for domestic fuel prices in June 2001, fuel subsidies have been eliminated, except for cooking gas consumption by low-income groups.

7. **Broad money growth accelerated in the course of 2001, owing in part to the conversion of French franc holdings by residents into local currency ahead of the introduction of the euro in early 2002. While the expansion of credit to the economy slowed after a rapid increase in 2000, the gradual unwinding in the latter part of the year of bank claims on the major parastatals with the proceeds of budgetary transfers permitted a**

rapid increase in credit to the private sector (Table 4). Meanwhile, guarantee deposits of the government in local banks, which had peaked in June 2001, were sharply reduced toward the end of the year (Box 3). However, many banks continue to exceed the statutory risk concentration ratios. **Despite the easing in interest rates in industrialized countries over the past several months, the regional central bank (BCEAO) has kept its benchmark discount rate unchanged at 6.5 percent since June 2000.**

**Box 3. Senegal: Stock of Guarantee Deposits Placed by the Government
in Local Banks, 1999-2001**
(In billions of CFA francs)

	Dec. 1999	Dec. 2000	Mar. 2001	Jun. 2001	Sep. 2001	Dec. 2001
Stock of guarantee deposits	9.2	16.2	33.5	44.0	38.5	4.5
SENELEC (electricity)	8.7	5.2	7.5	6.0	3.0	2.5
SONACOS (groundnuts)	0.0	7.0	22.0	30.0	29.5	0.0
SODEFITEX (cotton)	0.0	3.5	3.5	3.5	1.5	1.5
2001/02 groundnut seed loans	0.0	0.0	0.0	4.0	4.0	0.0
Other	0.5	0.5	0.5	0.5	0.5	0.5
Memorandum item:						
Guarantee deposits signed over to banks	0.0	0.0	0.0	0.0	0.0	22.0

Source: BCEAO.

III. POLICY DISCUSSIONS

8. **The authorities indicated that policies for the period ahead—supported by debt reduction under the Initiative for Heavily Indebted Poor Countries (HIPC)—aimed at reducing poverty and maintaining macroeconomic stability, while pressing forward with structural reforms to enhance growth prospects.**³ The government's medium-term poverty alleviation strategy, in particular, rests on four pillars: (a) sustained economic growth; (b) capacity building and promotion of basic social services; (c) improvement in the living standards of vulnerable groups; and (d) a participatory approach to the implementation and monitoring of the strategy. Consistent with the exchange rate anchor provided by the WAMU currency union, inflation is targeted to decline to 2 percent during 2002 and to remain in the low single digits thereafter. The authorities project real GDP growth at about 5 percent in 2002 on the strength of rapid growth in the secondary and tertiary sectors and a

³ The division of responsibilities in this area with the World Bank is presented in Box 4 and the social impact of the reforms contemplated under the program is discussed in the most recent staff report for Senegal (EBS/01/151; 8/31/01).

pickup in investment outlays (MEFP, para. 14); the mission pointed to the downside risks in the outlook, including the possibility of a significant shortfall in tax collections at a time when the external environment remained generally depressed.

Box 4. Senegal: Structural Conditionality

Coverage of structural conditionality

One group of structural performance criteria and benchmarks under the program, including the financing of the groundnut harvest, the pricing of fuel products, and the reform of the civil service retirement fund (FNR), has a direct bearing on macroeconomic stability and the public finances. In particular, they aim at addressing the root causes of recent fiscal problems, especially those stemming from losses of the groundnut and power companies and fuel subsidies covered by budgetary transfers; safeguarding the stability of the banking system—threatened by the placement of guarantee deposits on behalf of ailing parastatals; and stamping out pension system deficits that would weaken the public finances over time. Another group of structural measures, especially pertaining to the restructuring of the groundnut sector, aims at strengthening medium-term growth prospects by improving the efficiency of collection, transport, and marketing activities.

Structural areas covered by World Bank lending and conditionality

In February 2001, the World Bank extended an energy sector adjustment loan to support the resale of SENELEC to private investors, of which the last tranche (US\$45 million) was released in December 2001 after the company was brought to the point of sale according to World Bank criteria. The second outstanding tranche (US\$50 million) of the trade reform and competitiveness credit is conditional on improvements in tax administration and the regulatory environment. At this time, the Bank is not lending to support the groundnut sector, but it could do so in the future depending on progress in deepening the liberalization of the sector. The Bank is also expected to take a leading role in the broadening of pension reform, following the recent modifications to the FNR. Overall progress in implementing structural reforms will be taken into account by the Bank when considering a poverty reduction support credit (PRSC) in the second half of 2002.

Other relevant structural areas not included in the current program

Additional measures aiming at improving transparency in the fiscal accounts and strengthening expenditure tracking will likely be featured in a successor PRGF arrangement to be discussed with the authorities later in 2002. The World Bank also intends to treat these areas as part of its core conditionality under a possible PRSC.

A. Fiscal Policy

9. **The authorities' economic program seeks to reduce the government deficit before grants from an estimated 3.9 percent of GDP in 2001 to 2.6 percent in 2002; the basic fiscal balance would shift from a deficit of 0.8 percent of GDP into a surplus of 1.3 percent during the same period.** The fiscal tightening is premised on the full-year effect of tax measures introduced last year, further improvements in tax administration and cutbacks in spending, especially on transfers to loss-making parastatals. Other contributing factors include the envisaged reduction of deficits of the National Retirement Fund (FNR) and the postal service, and the full-year effect of the elimination of fuel subsidies in mid-

2001, except for those granted to low-income consumers of cooking gas.⁴ The wage bill would increase marginally in relation to GDP, owing to a 5–8 percent increase in remuneration and larger pension contributions as part of the FNR reform (see below). Capital expenditure (including the sizable carryover of HIPC-related appropriations under the supplementary budget passed in late 2001) would rise to 7.4 percent of GDP from 6.4 percent in 2001. The mission advised the authorities to monitor the fiscal situation closely and to identify contingency spending cuts, especially on subsidies and transfers, that could be activated if tax collections did not increase as fast as expected. Staff also noted that stemming the chronic losses of the state groundnut and power companies via the structural reforms described below was essential to underpin fiscal discipline.

10. The authorities plan to foster large infrastructure projects in partnership with the private sector, including a new Dakar international airport and a connecting toll road, a business park on the site of the current airport, a widening of the railroad gauge, a state-of-the-art port and a mineral shipping terminal, and an iron ore mine. Specific details are still to be worked out and thus far no fiscal costs have been incurred, except for preparatory work for the new airport site. Fund and Bank staff have questioned whether these projects deserve priority in light of the pressing need to combat poverty, and cautioned the authorities about their economic viability and potentially large fiscal repercussions (e.g., tax exemptions, construction of supporting structures, future recurrent costs, etc.).

B. Structural Reforms

Groundnut sector

11. After the government lowered groundnut producer prices for the 2001/02 crop year by 17 percent, took over 1.9 percent of GDP in SONACOS obligations in late 2001, and dissolved its loss-making subsidiary SONAGRAINES in November 2001, **the financial position of SONACOS is expected to stabilize in 2002 in advance of its privatization by mid-2003.** This outcome, however, hinges on capping groundnut purchases for processing by the company at 400,000 tons in 2001/02 to prevent a buildup in unmarketable stocks, with private traders absorbing the balance of the upcoming crop of about 1 million tons, as has been customary (Box 5). **SONACOS is now fully responsible for securing its own financing from domestic and foreign banks, since the government will no longer provide it with loan guarantees or place guarantee deposits on its behalf with banks.** After protracted discussions with stakeholders, a new framework agreement (*accord cadre*) for the sector incorporating some suggestions from World Bank staff and the European Union (EU) was finalized in late November 2001. It provides for a mechanism to set producer prices in line with world market developments and reduces public sector intervention in the sector, following the dissolution of SONAGRAINES.

⁴ Residual cooking gas subsidies in 2002 are equivalent to 0.2 percent of GDP.

Box 5. Senegal: Groundnut Sector Issues

Implementation of groundnut sector structural reforms

Groundnut sector reforms under the program have centered on three aspects:

- **Aligning groundnut producer prices with international price trends, reducing the cost of collection and transport by withdrawing SONAGRAINES from those activities, and introducing market-based pricing.** In the event, the government dissolved SONAGRAINES in November 2001, but the new arrangements fall short of market-based pricing. The call for bids for transport and collection services issued in early December contained indicative marketing margins and imposed restrictions on the activities of private operators. As a consequence, it appears that the envisaged gains in efficiency and competition in the sector have not yet been achieved, as evidenced by the minimal change displayed in marketing margins.
- **Setting a new framework agreement with stakeholders.** Discussions on a new framework agreement for the groundnut sector continued through October 2001. The agreement signed in November has received a qualified approval from the EU and the World Bank, which proposed adoption of specific additional measures by end-January 2002 to ensure the agreement meets its intended objectives. These measures are still pending.
- **Improving financial management of SONACOS.** Audits of SONACOS and SONAGRAINES for 1999, 2000, and the first half of 2001 were completed in December. The results point to extremely weak financial management of the company during the period, which should elicit immediate corrective actions on the part of SONACOS management and their supervisory authorities.

Purchases of groundnuts by SONACOS

The state-owned groundnut company, SONACOS, has historically bought much less than the estimated groundnut output. During the 1990s, total production fluctuated between 500,000 and 800,000 tons while the share purchased by SONACOS fluctuated between 18 percent (1997) and 69 percent (1990), with an average of 40 percent. The remainder of the production has traditionally been utilized for autoconsumption by farmers or sold through informal channels, either for local transformation and consumption or for export to neighboring countries. Limiting SONACOS's purchases to 400,000 tons out of an estimated total production of 1 million tons in 2002, as envisaged in the program, would entail a return to the more typical pattern, after the purchase by SONACOS of exceptionally large shares of the 2000 and 2001 harvests.

Sources: SONACOS; and staff estimates and projections.

12. Despite this progress, the authorities recognized that **the liberalization of the groundnut sector as spelled out in the program had been achieved only partially.** In particular, the wavering and lack of clarity in announcing the new institutional setup and the timeline for its adoption had created pervasive uncertainties on the part of market participants and commercial banks. When the new system was finally launched, private operators faced logistical difficulties in securing bank financing and organizing factory-gate deliveries of groundnuts, which were compounded by the delayed mobilization by SONACOS of the requisite domestic and off-shore financing. Mindful of the social vulnerability of the sector, which employs the bulk of the rural labor force, the authorities explained that they had decided not to allow full market determination of collection and transport costs for the time being, nor the unfettered operation of private intermediaries. Instead, they have set indicative intermediation margins for the duration of the 2001/02 crop year, assigned specific zones for the operation of private intermediaries, and instructed them to collect seed credits from farmers on behalf of SONACOS. The mission stressed the importance of consolidating and deepening the liberalization of the sector in the period ahead, so as to fully reap the envisaged efficiency, distributional and fiscal gains. In this context, it welcomed the authorities' decision to formulate by June 2002 an action plan to restructure and privatize SONACOS by mid-2003 (paragraph 19 of the MEFP), while noting that success in this endeavor—after past failed attempts—hinged on revising the current framework agreement and allowing market-based pricing for collection and transport activities. While seeing the current framework agreement as a transitional arrangement in the period leading to privatization of SONACOS, the World Bank and the EU have indicated to the government that their lending to the sector will be resumed only after some provisions of the framework agreement have been amended, including to allow full privatization of activities previously conducted by SONAGRAINES.

Power sector

13. Power tariffs remained unchanged during the period 1994–2001, despite a sizable increase in the cost of electricity generation over the past two years (Figure 3). After a request by SENELEC for a tariff increase under the regulatory formula in early 2001 was dropped at the behest of the government (its sole shareholder), mounting losses of the company were covered by government transfers equivalent to 1.2 percent of GDP, which allowed it to settle the bulk of its debts. **The structural PC set under the program to either finalize the privatization of SENELEC or raise power tariffs by November 15, 2001 was met with a delay; on February 25, the authorities announced a 10 percent increase in power tariffs, effective March 1, 2002,** that is expected to limit the cash deficit in 2002 to CFAF 10 billion (0.3 percent of GDP). These losses, including a settlement of CFAF 7 billion in outstanding 2001 obligations, would be fully covered by budgetary transfers, for which the government has identified matching expenditure cutbacks. The authorities indicated that the tariff hike became unavoidable as a result of larger-than-expected SENELEC losses in 2001 and early 2002 and the delay in privatization talks. Staff urged them to consider an additional tariff increase later in the year, if necessary, to fully stem operating losses, while also recommending more permanent measures to improve the company's longer-term prospects—especially the expansion and modernization of its

obsolete equipment—regardless of the outcome of the privatization talks. The authorities said that negotiations with the original winning bidders (Vivendi and the Moroccan state power utility, ONE) had broken down because of their demands for subsidies and government guarantees, as well as the difficulties they had experienced in mobilizing the required resources. As a result, the authorities have invited the second bidder, the American utility AES, to initiate discussions.

Pension reform

14. The financial problems of the social security system, particularly the civil service pension scheme (FNR), are long-standing, and pension reform has been an important policy objective of the PRGF arrangement since its inception in 1998.⁵ The imbalances of the FNR, which operates as a “pay-as-you-go” scheme, stem from a steady rise in the number of retirees over time while the size of the civil service has remained largely stable. In these circumstances, the FNR has accumulated large unfunded future liabilities and incurred rising cash deficits in its special account at the treasury (estimated at 0.3 percent of GDP in 2001). More recently, and in order to address these problems, **the program included as a structural PC a commitment to send a pension reform bill to parliament by end-2001 designed to ensure the financial balance of the FNR from 2002 onward.** In the event, the law enacted by parliament on February 13, 2002 combined several revenue-enhancing measures (which will, however, be largely absorbed by the government budget) with a reduction in benefits; as a result the law will lower somewhat the net present value of the FNR’s future liabilities, but without securing full financial balance as originally envisaged. The highlights of the reform are: (a) broadening the base of wage contributions; (b) raising the retirement age from 55 to 60 years; (c) curtailing family benefits, and (d) modifying the pension formula to include a longer history of wages (three years instead of one year) and to reduce the accrual rate for pensions from 2 percent to 1.8 percent of the pensionable wage base per year of service. The authorities said that negotiations on the reform with stakeholders, especially labor unions, had taken longer than expected and, in the rush to send the bill to parliament before year’s end, they had been unable to incorporate certain parametric modifications proposed by World Bank and Fund staff that would have strengthened the reform. These proposals focused on basing the reference retirement wage on the whole employment history or, at a minimum, the last ten years; indexing pensions to inflation, not wages; and further reducing the accrual rate for pensions to at most 1.7 percent of the pensionable wage per year of service. **The mission noted that the recently enacted law, while falling short of expectations, represented a first step in the right direction. It encouraged the authorities to amend the bill as soon as possible along the lines mentioned above, if necessary on a phased basis.** Moreover, the mission urged the authorities to broaden the social security reform, in consultation with World Bank staff, to

⁵ In the MEFP attached to the original request for the current three-year PRGF arrangement (EBS/98/68; 4/6/98, p. 57 and Table 3), the government undertook to adopt by end-1998 a plan to secure long-term financial viability of the FNR.

include the Social Security and Retirement Institute (IPRES), which covers private sector and public sector employees outside the civil service. The mission added that a broadening of social security reform would likely represent an important plank of a program that might be supported by a successor PRGF arrangement.

Postal service reform

15. **An audit of the postal service conducted in 2000 by Senegal's General Accounting Office identified irregularities during the previous three years** stemming from (a) lack of control, oversight, and proper accounting; (b) irregular and fictitious expenses; and (c) overly generous remunerations and benefits. As a result, the postal service resorted to treasury advances equivalent to 0.6 percent of GDP in early 2000. **The government has since taken some corrective actions**, including a change in postal management, efforts to reestablish accounts for 1997–2000 by an independent accounting firm, and a freeze on investment. **However, past losses have continued to pose a burden, and a cash-flow deficit of 0.5 percent of GDP was recorded in 2001.** A recent increase in postal rates and drastic measures, such as the eventual suspension of residential mail delivery (while delivery is maintained to post office boxes), are expected to eliminate the operating deficit (previously running at CFAF 1–2 billion a year), but settling the debt and averting future losses will require further measures. To cover transitional losses, the government intends to include in the 2003 budget an appropriation to cover the cost of its use of postal services. Moreover, **to secure a longer-term financial improvement and safeguard treasury resources, it will seek a revision of the agreement between the postal service and the treasury and will further strengthen control and oversight over postal operations.** In the next few months, the government will formulate a specific action plan to address these problems, which will likely feature a separation of the financial and postal services currently provided by the post office.

C. Monetary and Financial Sector Issues

16. Senegal's monetary policy is framed in the context of its membership in the regional currency union. The monetary program for 2002 discussed with the authorities is premised on an 8 percent increase in broad money during the year. The officials explained that repayment of BCEAO advances to the government originally planned for 2001 would be achieved only partially in 2002, despite the programmed fiscal consolidation. Nevertheless, there would be room for recovery in credit to the productive sector, which slowed significantly in 2001, and a further buildup in net official foreign reserves (Table 5). Together with the repayment of parastatal debts effected through the proceeds of government transfers, these developments should also continue to ease the concentration of bank loan portfolios, but it may take time for most banks to fully comply with the prudential concentration ratios set by the BCEAO. The mission advised the authorities to follow up on the recommendations of the joint Fund/Bank Financial System Stability Assessment, notably to improve the functioning of the judiciary (which would help curb loan delinquencies) and to develop an efficient payments system.

D. PRSP and HIPC Initiative

17. **The government has advanced in the preparation of a full poverty reduction strategy paper (PRSP).** Household and poverty perception surveys and discussions with focus groups were completed in August–September, regional consultations were conducted through October, and different thematic groups finalized their draft PRSP sections in November 2001. A preliminary draft of the PRSP was sent to Fund and World Bank staffs for comments in mid-December 2001. The authorities indicated that, after incorporating these comments and those of other stakeholders, **they planned to send a full PRSP to the Fund and Bank Boards shortly.** Meanwhile, they submitted a PRSP preparation status report in December 2001, which has been forwarded to the Board together with a joint Fund/Bank staff assessment.

18. **Progress in satisfying certain enhanced HIPC Initiative completion point conditions has been slow.** Only two of the eleven public enterprises slated for privatization have been divested thus far, but the remainder will be privatized by June 2002. Liquidation of the industrial promotion company for Dakar (SODIDA) is to be completed soon, and work toward divestiture of the Dakar-Bamako rail link and the housing company (SICAP) is continuing. Regarding the cotton company (SODEFITEX), the authorities have opted for a capital increase by the current private shareholders instead of an outright competitive bid for privatization. The 2002 education budget still does not meet the completion point target set for the share of primary education spending, and only one out of four health-related criteria has been respected thus far.⁶ **Since interim assistance under the enhanced HIPC Initiative expired at end-2001, staff proposes to grant additional interim assistance until end-2002.**⁷ This should give the authorities ample time to complete the full PRSP, while protecting the resource envelope for social expenditure and allowing Fund and Bank staffs to monitor and certify the implementation of floating completion point conditions under the Initiative.

19. An FAD mission in September 2001 assessed Senegal's capacity to track poverty-reducing expenditure. The team provided a number of recommendations that will involve the provision of further technical assistance in the management of investment projects, budget consolidation, and functional budget classification. The authorities, in cooperation with World Bank and Fund staffs, will prepare an action plan based on these findings, with a view to improving the tracking of pro-poor outlays in future programs (MEFP, para. 25). The

⁶ Education and health budget figures for 2002 do not include the carry-over of 2001 HIPC allocations and unallocated 2002 HIPC resources.

⁷ Combined with the amounts already disbursed, this would bring Fund assistance to SDR 8.2 million, or 24.2 percent of total Fund assistance under the enhanced HIPC Initiative (see Appendix II).

authorities are also requesting Fund technical assistance to improve the management and reporting of external public debt.

E. Proposed Waivers and Program Monitoring

20. Based on Senegal's performance under the program, staff proposes completion of the second review under the third annual PRGF arrangement in light of the broadly satisfactory compliance, albeit with a delay, with the structural and quantitative performance criteria for end-September and November 15, 2001, as discussed above. Accordingly, in his letter of March 11, 2002 (see Appendix I), the Minister of Economy and Finance requests waivers for three end-September performance criteria and one structural performance criterion for November 15, 2001 that were missed, on the basis of remedial measures taken by the government. However, staff does not propose completion of the third review under the arrangement in light of the significant deviations from the program objectives related to that review. In particular,

- Three quantitative performance criteria and two structural performance criteria for end-December 2001 were breached (see Box 2).⁸ Completion of the third review would therefore have required the granting of an additional five waivers by the Executive Board, besides the four waivers for the second review just mentioned.
- The reform of the groundnut sector, which is key for rapid growth, poverty alleviation and long-run fiscal sustainability and which has been an elusive objective of Fund programs for many years, fell significantly short of program specifications.⁹ The authorities will need to implement the pending measures in the course of 2002 to ensure successful privatization of SONACOS by mid-2003 and reap the full benefits of liberalization.
- The latest attempt to reform the pension scheme, based on the bill submitted by the government in late 2001 and enacted by parliament in early 2002, did not achieve long-term financial balance of the FNR as programmed (Appendix I, Table 1).

21. The shortcomings just described in the areas of groundnut sector liberalization and pension reform will need to be tackled in the context of a successor PRGF arrangement to be discussed later this year. Meanwhile, to help the monitoring of program implementation for the remainder of the arrangement, which expires on April 19, 2002, and in advance of

⁸ Two quantitative benchmarks (on the deficits of the postal service and the FNR) and one structural benchmark for the same test date were also missed.

⁹ See, for example, the 1996 Policy Framework Paper (EBS/96/64; 12/24/96) and the original request for the 1998 PRGF arrangement (EBS/98/68; 4/6/98).

discussions on a successor PRGF arrangement, indicative quantitative targets have been established through end-June 2002.

IV. STAFF APPRAISAL

22. Senegal continued to display rapid output growth with low inflation in 2001, benefiting from the WAEMU's exchange rate anchor and monetary discipline. The September 11 events appear thus far to have had a limited economic fallout on the country, given the strong pace of activity and exports beforehand and the decline in world oil prices. For 2002, the outlook is for a growth rate on the order of 4½ - 5 percent and a decline in inflation to 2 percent during the year, absent any major domestic or external shocks.

23. Economic policy during the better part of 2001 was characterized by widening losses of the groundnut and power parastatals and, during the first semester, by generalized fuel subsidies, which imposed a heavy fiscal burden. There were delays in implementing the programmed liberalization of the groundnut sector and in tackling the problems of the power sector, as well as weak coordination among public agencies. These weaknesses point to the pressing need for greater program ownership, further capacity building in the core economic ministries, a closer monitoring of policies, and a quicker response to potential slippages.

24. Against this backdrop, the elimination of fuel subsidies in June 2001 and a number of structural measures taken recently to make up for missed end-September and mid-November 2001 performance criteria (linked to the second review under the program) represent important achievements of the government. In the groundnut sector, the liquidation of SONAGRAINES, coupled with the downward adjustment of domestic producer prices for the present crop in line with international prices of groundnut oil, should eliminate the need for government transfers in 2002. To secure that result, SONACOS must henceforth strictly contain its groundnut purchases for processing within the parameters dictated by the external demand for groundnut by-products. In the energy sector, the authorities are to be commended for the decision to increase tariffs, albeit with a delay, and to take short-term steps to reduce costs in the near future. However, they should stand ready to further increase tariffs later in the year, as needed, to fully stem SENELEC's operating losses. Meanwhile, the company should secure as soon as possible the external resources required to boost capacity, while striving to enhance operating efficiency and seeking closure of the privatization process in a fiscally sound manner.

25. Regarding other structural measures, including end-December 2001 performance criteria linked to the third review under the program, there is a need to intensify the reform efforts so as to obtain the targeted results and safeguard macroeconomic stability. More specifically, the recent reform of the National Retirement Fund (FNR), while representing a first step in the right direction, does not achieve long-term financial balance and will therefore require a second round of actions to trim benefits, which could perhaps be phased in gradually. In any event, a broadening of the social security reform, in consultation with World Bank staff, to also address the projected imbalances of the private employee pension scheme (IPRES) should be given top priority. In the groundnut sector, the government needs

to deepen the reform effort and fully prepare the sector for privatization. In this respect, the authorities' commitment to formulate an action plan for the privatization of SONACOS by June 2002 and to finalize the privatization by mid-2003 is encouraging. Staff would also urge them to work closely with the World Bank and the EU to address the shortcomings of the current framework agreement and broaden the liberalization drive, thereby facilitating the resumption of these organizations' lending in support of the sector. Furthermore, the authorities would be advised to fully identify and stem the postal system's losses, building on the remedial measures adopted since 2000.

26. As regards central government finances, reducing the government deficit before grants to about 2½ percent of GDP in 2002 and generating a basic fiscal surplus of about 1½ percent will be crucial to stabilize the economy and bolster confidence. The authorities need to exert strict discipline on spending and to identify contingent cuts in nonessential outlays, to be activated if tax collections fall short of expectations. At the same time, they are urged to intensify their efforts to increase the share of basic social services in total outlays. The continued application of the pass-through scheme for fuel prices reintroduced in June 2001 and close scrutiny of the treasury's transactions with correspondent agencies outside the central administration will, therefore, be essential. The government should neither undertake nor sponsor any showcase projects that fail cost-benefit tests or entail potentially expensive future claims on public monies (e.g., to the building of supporting infrastructure, the provision of other logistical support or tax incentives, or the covering of future recurrent costs).

27. The prudent monetary stance of the BCEAO, combined with the fiscal tightening envisaged in 2002, should help keep inflation at low-single-digit rates. At the same time, the repayment over the past several months of parastatal debts with the proceeds of budgetary transfers should release more resources for the productive sectors and bring loan concentration ratios closer to the limits set by the regional banking commission. More generally, staff urges the authorities to implement as soon as feasible the recommendations of the joint Fund/Bank Financial System Stability Assessment, including improvements in the functioning of the judiciary and development of an efficient payments system.

28. Given Senegal's weak social indicators, the authorities should continue to work toward increasing the size and quality of public spending on basic social services. They are encouraged to finalize the preparation of a sound PRSP that reflects wide-ranging consultations with civil society, as well as to meet as soon as possible the floating HIPC Initiative completion point conditions. Furthermore, staff would urge the authorities to improve the tracking of HIPC Initiative-related outlays, based on recent Fund and Bank staff recommendations.

29. Overall, Senegal's economy has historically been characterized by small government deficits that have underpinned the exchange rate anchor and delivered sustained growth and low inflation. Inefficiencies in major parastatals and the delay in raising electricity tariffs according to the regulatory formula have, nevertheless, detracted from these achievements. Policy implementation has been hampered by capacity and coordination constraints, weak

ownership, and undue delays in taking important economic decisions, owing in part to political considerations. The government should now address these problems resolutely while improving the quality and transparency of public spending. It is reassuring that, despite the mixed results in the first half of 2001, the authorities have more recently taken important corrective steps to settle parastatal debts, embark on the liberalization of the groundnut sector, increase power tariffs, and seek a consensus on a poverty reduction strategy. Fiscal consolidation and close adherence to the indicative targets through end-June 2002 established under the program will, therefore, be important, as well as a broadening of structural reforms in the groundnut sector and further work to reach the enhanced HIPC Initiative completion point as soon as feasible. The authorities also would be advised to privatize SENELEC in a fiscally sound manner or fully revamp the company's operations if it stays in the public domain. Looking further ahead, the agenda for structural reforms under a successor PRGF arrangement includes the privatization of SONACOS under a fully liberalized environment, second-generation reforms in the pension system and the postal service, and a tangible redirection of public spending toward the social sectors. Despite the risks of future policy setbacks, the staff's view is that the remedial actions taken to date warrant completion of the second review under the third PRGF arrangement, together with Executive Board approval of the waivers for nonobservance of certain performance criteria for end-September and for November 15, 2001 and the extension of additional interim assistance under the enhanced HIPC Initiative until December 31, 2002. However, staff does not propose completion of the third review under the arrangement, given the significant deviations from the program's end-2001 quantitative objectives, as well as the shortcomings in the area of pension reform and groundnut sector liberalization, both of which constituted central elements of the program's structural reform agenda.

Figure 1. Senegal: Terms of Trade and Effective Exchange Rates

Sources: Senegalese authorities; IMF, Information Notice System; and staff estimates.

Figure 2. Senegal: Main Economic Indicators, 1992-2003 1/

Sources: Senegalese authorities; and staff estimates and projections.

1/ Fiscal year ended June through 1991/92; on calendar-year basis starting in 1993.

2/ Central government on a commitment basis.

3/ The series on grants and foreign-financed capital expenditure were revised from 1996 onward to take into account available foreign financing.

Figure 3. Senegal: Oil Prices and Electricity Tariffs in Domestic Currency, 1994-2002 1/

(Index, 1994=100)

Sources: Senegalese authorities; and staff estimates and projections.

1/ The bulk of electricity in Senegal comes from oil-fired plants.

Table 1. Senegal: Selected Economic and Financial Indicators, 1998-2003

	1998	1999	2000 Est.	2001 Prel.	2002 Projections	2003 Projections
(Annual percentage change, unless otherwise indicated)						
National income and prices						
GDP at constant prices	5.7	5.0	5.6	5.6	5.0	5.1
Of which: nonagriculture GDP	7.1	4.8	4.2	4.7	5.7	5.2
Consumer prices						
Annual average	1.1	0.8	0.7	3.0	2.3	2.0
End of period	1.0	0.5	1.3	3.9	2.0	2.0
External sector						
Exports, f.o.b. (in CFA francs)	8.2	10.7	3.6	8.2	7.8	6.3
Imports, f.o.b. (in CFA francs)	10.1	11.9	12.6	3.9	5.3	6.9
Export volume	8.8	12.4	-1.9	9.2	8.1	4.2
Import volume	16.3	10.0	1.7	6.2	6.8	4.8
Terms of trade (deterioration -)	5.0	-3.4	-4.4	1.2	1.1	0.0
Nominal effective exchange rate	2.3	-1.7	-5.1	1.2	...	...
Real effective exchange rate	2.2	-2.4	-6.5	1.9	...	...
(Changes in percent of beginning-of-year broad money, unless otherwise indicated)						
Money and credit						
Net domestic assets	2.4	5.0	12.8	4.2	4.7	1.7
Domestic credit	6.6	8.4	15.5	6.3	4.7	1.7
Credit to the government (net)	-1.1	1.2	-4.0	2.6	-2.7	-9.1
Credit to the economy (percentage growth)	11.2	10.4	28.6	4.7	10.2	14.6
Broad money (M2)	8.6	13.3	10.7	14.4	7.9	6.8
Velocity (M2/GDP; end of period)	4.3	4.1	3.9	3.7	3.7	3.7
Interest rates (end of period; in percent)						
Discount rate	6.25	5.75	6.50	6.50	...	...
Money market rate	4.95	4.95	4.95	4.95	...	...
(In percent of GDP)						
Government financial operations						
Revenue	16.8	17.3	18.1	17.8	18.6	18.7
Grants	3.0	2.1	2.1	1.8	2.2	2.3
Total expenditure and net lending	20.1	20.9	20.0	21.7	21.2	20.9
Of which: social expenditure 1/	...	5.4	5.1	5.4	...	...
Overall fiscal surplus or deficit (-) 2/						
Commitment basis, excluding grants	-3.3	-3.5	-2.0	-3.9	-2.6	-2.2
Commitment basis, including grants	-0.3	-1.4	0.1	-2.0	-0.4	0.0
Basic fiscal balance 3/	2.6	1.7	1.2	-0.8	1.3	1.6
Gross domestic investment 4/	17.5	19.4	18.4	16.8	18.8	19.7
Gross domestic savings	10.4	11.8	8.4	8.2	10.8	11.4
Gross national savings	12.9	13.2	11.6	12.0	13.7	14.2
External current account deficit (-)						
Excluding current official transfers	-7.8	-7.9	-9.0	-6.4	-6.7	-7.1
Including current official transfers	-4.6	-6.2	-6.7	-4.8	-5.1	-5.5
Domestic public debt	13.1	10.8	8.7	9.8	7.4	5.1
External public debt 5/	77.7	74.6	78.6	73.7	53.5	51.6
(In percent of exports of goods and nonfactor services, unless otherwise indicated)						
External public debt service 6/	14.8	12.3	12.5	9.2	9.8	8.2
In percent of government revenue	26.4	21.6	20.7	15.2	15.2	12.5
GDP at current market prices (in billions of CFA francs)	2,746.0	2,925.0	3,114.0	3,379.7	3,648.1	3,895.2

Sources: Senegalese authorities; and staff estimates and projections.

1/ Includes foreign-financed capital expenditure.

2/ Includes additional expenditures linked to the HIPC Initiative interim assistance debt relief.

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

4/ Assumes that 75 percent of undistributed HIPC Initiative spending in 2002-03 will be investment, and includes accumulation of stocks of CFAF 37 billion in 2000 and 2001 and decumulation of these stocks in 2002 and 2003.

5/ Assumes a reduction in the stock of debt in 2002 after Senegal reaches the completion point under the HIPC Initiative.

6/ Figures for 2000-01 take into account HIPC Initiative interim assistance from the IMF, the World Bank, the African Development Bank, and the Paris Club. Figures for 2002-03 take into account expected debt relief under the HIPC Initiative from these four donors.

Table 2. Senegal: National Accounts, 1998-2003

	Composition of GDP in 1999 (In percent)	1998 Est.	1999 Est.	2000 Est.	2001 Proj.	2001 Est.	2002 Projections	2003
(Annual percentage change at constant prices, unless otherwise indicated)								
Primary sector	17.6	-2.7	5.7	10.6	6.9	7.6	-2.6	3.7
Agriculture	8.2	-7.3	7.3	21.3	13.3	13.8	-0.4	4.4
Livestock	6.7	3.3	4.8	3.1	3.1	3.2	-7.7	2.2
Fishing	2.1	-3.4	4.0	-4.5	-10.6	-6.5	2.1	4.7
Forestry	0.6	0.9	1.2	1.3	1.5	1.9	2.5	5.0
Secondary sector	20.5	8.4	6.7	6.1	6.4	6.1	8.3	7.3
Mining	0.3	-2.7	20.7	-0.9	11.5	-5.4	11.0	8.7
Industry	13.1	7.2	4.3	5.2	5.4	5.1	5.8	6.7
Oil milling	0.5	28.3	7.1	49.5	20.8	6.1	20.9	7.7
Energy	1.8	5.5	0.5	6.6	8.0	10.3	8.3	6.1
Construction and public works	4.7	12.7	15.7	4.4	6.3	7.8	12.9	9.4
Tertiary sector	61.9	7.5	4.2	4.0	5.2	4.8	6.3	4.7
Transportation and telecommunications	12.1	7.5	6.6	8.0	6.5	6.4	7.5	5.7
Commerce	21.9	7.8	4.1	2.1	5.6	5.6	5.9	5.5
Public administration	8.8	2.9	3.9	5.5	4.6	0.8	11.7	3.9
Other	19.2	9.4	3.2	2.9	4.2	4.5	3.5	3.5
GDP	100.0	5.7	5.0	5.6	5.8	5.6	5.0	5.1
Nonagriculture GDP	91.8	7.1	4.8	4.2	5.0	4.7	5.7	5.2
GDP deflator	...	1.7	1.4	0.8	3.1	2.8	2.8	1.6
Consumer price index (period average)		1.1	0.8	0.7	3.2	3.0	2.3	2.0
(In percent of GDP)								
Gross domestic investment		17.5	19.4	18.4	17.4	16.8	18.8	19.7
Government 1/		7.2	8.3	6.2	7.4	6.4	7.7	8.5
Nongovernment 2/		10.4	11.1	12.2	10.0	10.4	11.1	11.2
Gross domestic savings		10.4	11.8	8.4	9.2	8.2	10.8	11.4
Government 1/		6.4	6.4	5.9	3.0	3.3	6.4	7.2
Nongovernment		4.0	5.4	2.6	6.1	4.9	4.3	4.2
Investment - savings balance		-7.1	-7.6	-9.9	-8.3	-8.6	-8.1	-8.3
Government		-0.7	-1.9	-0.3	-4.4	-3.1	-1.3	-1.3
Nongovernment		-6.4	-5.7	-9.6	-3.9	-5.5	-6.8	-7.0
External current account balance 3/		-4.6	-6.2	-6.7	-6.1	-4.8	-5.1	-5.5
Gross national savings 3/		12.9	13.2	11.6	11.4	12.0	13.7	14.2
Memorandum item:		(In billions of CFA francs)						
GDP at current prices		2,746.0	2,925.0	3,114.0	3,394.3	3,379.7	3,648.1	3,895.2

Sources: Senegalese authorities; and staff estimates and projections.

1/ Central government; assumes that 75 percent of undistributed HIPC Initiative spending in 2002-03 will be investment.

2/ Includes accumulation of stocks of CFAF 37 billion in 2000 and 2001 and decumulation of these stocks in 2002 and 2003.

3/ Includes current transfers.

Table 3. Senegal: Government Financial Operations, 1998-2003

	1998	1999	2000	2001		2002	2003
			Est.	Prog. 1/	Prel.	Proj.	
(In billions of CFA francs)							
Total revenue and grants	541.9	568.4	626.3	675.4	664.4	759.8	816.6
Revenue	460.1	506.8	562.3	610.4	602.7	678.3	728.4
Tax revenue	438.9	491.2	537.3	592.1	576.8	661.8	712.8
Nontax revenue	21.2	15.6	25.0	18.3	25.9	16.5	15.6
Grants	81.8	61.6	64.0	65.0	61.7	81.5	88.2
Budgetary	18.7	4.1	14.1	0.0	0.0	6.5	18.2
Budgeted development projects	63.1	57.5	49.9	65.0	61.7	75.0	70.0
Total expenditure and net lending	550.6	609.9	623.1	808.6	733.0	772.7	815.9
Current expenditure	310.1	351.1	411.0	537.5	516.6	476.6	473.9
Wages and salaries 2/	162.6	166.6	175.8	181.0	177.3	198.0	205.9
Interest due	34.8	42.5	45.3	39.6	30.3	40.1	36.6
Of which: external 3/	27.8	32.3	39.6	34.6	23.7	31.1	31.6
Other current expenditure	112.7	142.0	189.9	316.9	309.0	238.5	231.3
Of which: petroleum product subsidies (excl. butane)	...	0.0	24.4	11.1	11.1	0.0	0.0
assistance to public enterprises	0.0	0.0	0.0	105.0	105.0	10.0	0.0
Capital expenditure	196.9	242.3	193.2	254.8	217.2	271.2	307.2
Domestically financed	78.5	111.3	106.6	135.8	118.5	143.7	173.2
Externally financed 4/	118.4	131.0	86.6	119.0	98.7	127.5	134.0
Treasury special accounts and correspondents (net)	8.3	11.2	14.0	6.3	3.8	4.0	2.0
Net lending	35.3	5.3	4.9	10.0	-4.6	7.0	0.5
Lending	44.0	22.4	11.4	16.0	5.7	15.0	16.0
Reimbursements	-8.7	-17.1	-6.5	-6.0	-10.3	-8.0	-15.5
Additional HIPC Initiative expenditures (to be identified)	...	...	...	...	...	13.9	32.3
Overall fiscal balance (commitment basis, including grants)	-8.7	-41.5	3.2	-133.2	-68.6	-12.9	0.7
Overall fiscal balance (commitment basis, excluding grants)	-90.5	-103.1	-60.8	-198.2	-130.3	-94.4	-87.5
Excluding assistance to public enterprises and HIPC Initiative	...	...	...	-69.8	-19.7	-52.7	-55.1
Adjustments to cash basis	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
Basic fiscal balance 5/	71.9	50.3	37.2	-63.2	-25.9	48.1	62.5
Excluding assistance to public enterprises and HIPC Initiative	...	...	...	65.2	84.7	89.8	94.9
Overall fiscal balance (cash basis, including grants)	-11.4	-41.5	3.2	-133.2	-68.6	-12.9	0.7
Financing	11.4	41.5	-3.2	133.2	68.6	12.9	-0.7
External financing	50.3	22.9	17.1	125.7	54.9	64.2	89.6
Drawings	108.7	80.2	78.1	172.7	103.3	116.8	123.5
Treasury	19.1	0.0	37.1	102.7	60.6	49.3	43.5
Project loans	89.6	80.2	41.0	70.0	42.7	67.5	80.0
Amortization due	-58.4	-57.3	-65.2	-74.2	-64.2	-74.1	-66.2
Debt relief and HIPC Initiative interim assistance 6/	0.0	0.0	4.2	27.2	15.8	21.5	32.3
Domestic financing	-28.6	18.6	-21.1	7.4	16.2	-51.3	-90.3
Banking system	-6.2	7.4	-28.3	30.0	20.6	-24.6	-88.6
Nonbank financing	-22.4	11.2	7.2	-22.6	-4.4	-26.7	-1.7
Of which: privatization	30.9	40.7	2.9	-24.1	-44.1	1.1	1.1
Errors and omissions	-10.3	0.0	0.8	0.0	-2.5	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)							
Total revenue and grants	19.7	19.4	20.1	19.9	19.7	20.8	21.0
Of which: revenue	16.8	17.3	18.1	18.0	17.8	18.6	18.7
Of which: tax revenue	16.0	16.8	17.3	17.4	17.1	18.1	18.3
Total expenditure and net lending	20.1	20.9	20.0	23.8	21.7	21.2	20.9
Of which: current expenditure 7/	11.3	12.0	13.2	15.8	15.3	13.1	12.2
capital expenditure 7/	7.2	8.3	6.2	7.5	6.4	7.4	7.9
Overall fiscal balance	-3.3	-3.5	-2.0	-5.8	-3.9	-2.6	-2.2
Commitment basis, excluding grants	-0.3	-1.4	0.1	-3.9	-2.0	-0.4	0.0
Commitment basis, including grants	-3.3	-3.5	-2.0	-2.1	-0.6	-1.4	-1.4
Commitment basis, excl. grants, and excl. assistance to public enterprises and HIPC Initiative	2.6	1.7	1.2	-1.9	-0.8	1.3	1.6
Basic fiscal balance 5/	2.6	1.7	1.2	-1.9	-0.8	1.3	1.6
Basic fiscal balance (excl. assistance to public enterprises, and HIPC Initiative)	2.6	1.7	1.2	1.9	2.5	2.5	2.4
(In billions of CFA francs)							
Memorandum items:							
HIPC Initiative expenditure	...	...	4.2	23.4	5.6	31.7	32.3
Current and capital social expenditure 7/ 8/							
Education	95.2	103.7	112.6	120.8	118.5	124.2	...
Health	21.9	27.6	33.5	42.2	35.8	41.1	...
Military spending 9/	44.3	48.2	44.4	50.5	50.5	51.6	...
Gross domestic product	2,746.0	2,925.0	3,114.0	3,394.3	3,379.7	3,648.1	3,895.2

Sources: Senegalese authorities; and staff estimates and projections.

1/ EHS/01/151 (8/31/01) adjusted for the allocation of HIPC Initiative resources in a supplementary budget law.

2/ The wage bill in 2002 reflects the expected reform of the National Retirement Fund.

3/ The external debt-service figures include all debt directly contracted by the government and part of the government-guaranteed debt serviced by the budget.

4/ Sources of foreign financing are grants, loans, and uses of the proceeds received from Taiwan Province of China

(CFAF 9.6 billion in 1999, and CFAF 9.1 billion in 2000); uses are investment outlays and gross lending.

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

6/ Represents from 2000 onward interim HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank and the Paris Club.

7/ Excludes undistributed expenditures on account of HIPC Initiative debt relief in 2002 and 2003.

8/ Excludes externally financed capital expenditure and unallocated HIPC Initiative spending.

9/ Defense budget figures.

Table 4. Senegal: Monetary Survey, 1998-2003

	1998	1999	2000 Est.	2001 Proj.	2001 Prel.	2002 Proj.	2003 Proj.
(In billions of CFA francs)							
Net foreign assets	51.4	104.0	88.7	116.3	168.7	198.5	247.9
Central Bank of West African States (BCEAO)	-6.5	13.6	-5.6	22.0	65.8	95.6	145.0
Commercial banks	57.9	90.4	94.3	94.3	102.9	102.9	102.9
Net domestic assets	578.9	610.1	701.7	745.7	735.2	777.2	793.9
Net domestic credit	621.5	674.6	785.3	829.3	835.5	877.5	894.2
Net credit to the government	181.1	188.5	160.2	190.2	180.8	156.2	67.6
Central bank	158.9	174.4	201.2	196.2	221.3	212.6	139.8
Statutory advance	70.4	60.7	38.9	0.0	73.6	50.9	0.0
Use of IMF credit	160.8	154.0	154.1	168.2	159.4	152.0	130.5
Consolidated loans	6.0	5.2	4.5	7.7	8.9	7.9	6.9
Other loans 1/	59.1	59.1	59.1	59.1	59.1	59.1	59.1
Deposits	-137.4	-104.6	-55.4	-38.8	-79.7	-57.3	-56.7
Commercial banks	20.9	13.0	-42.5	-7.5	-42.0	-57.9	-73.7
Of which: deposits	-101.5	-97.6	-136.5	-123.8	-143.8	-139.3	-139.3
Of which: guarantee deposits	0.0	-8.7	-15.7	-4.0	-4.5	0.0	0.0
treasury bills	0.0	0.0	0.0	40.0	27.4	21.5	20.0
Other institutions	1.3	1.1	1.5	1.5	1.5	1.5	1.5
Credit to the economy 2/	440.4	486.1	625.1	639.1	634.7	721.3	826.6
Of which: crop credits	12.7	1.7	0.0	0.0	5.0	5.4	5.8
Other items (net)	-42.6	-64.5	-83.6	-83.6	-100.3	-100.3	-100.3
Broad money (M2)	630.3	714.1	790.4	862.0	903.9	975.7	1,041.8
Currency outside banks	158.5	179.7	172.0	187.6	219.2	236.6	212.5
Demand deposits	238.6	261.2	292.9	316.3	320.8	346.3	388.5
Time deposits	233.2	273.2	325.5	358.1	363.9	392.8	440.7
(In percentage of beginning-of-period money stock)							
Net foreign assets	6.2	8.3	-2.1	3.5	10.1	3.3	5.1
BCEAO	2.5	3.2	-2.7	3.5	9.0	3.3	5.1
Commercial banks	3.7	5.2	0.5	0.0	1.1	0.0	0.0
Net domestic assets	2.4	5.0	12.8	5.6	4.2	4.7	1.7
Net credit to the government	-1.1	1.2	-4.0	3.8	2.6	-2.7	-9.1
Credit to the economy	7.6	7.3	19.5	2.2	3.7	7.4	10.8
Other items (net)	-4.2	-3.5	-2.7	0.0	-2.1	0.0	0.0
Broad money (M2)	8.6	13.3	10.7	9.1	14.4	7.9	6.8
Memorandum items:	(In units indicated)						
Velocity (GDP/M2; end of period)	4.3	4.1	3.9	3.9	3.7	3.7	3.7
Nominal GDP growth (percentage growth)	7.5	6.8	6.4	9.1	8.5	7.9	6.8
Credit to the economy (percentage growth)	11.2	10.4	28.6	2.2	4.7	10.2	14.6
Credit to the economy/GDP (in percent)	16.1	16.6	20.1	18.8	19.4	19.8	21.2
Variation of net credit to the government (since the beginning of the year; in billions of CFA francs)	-6.2	7.4	-28.3	30.0	20.6	-24.6	-88.6

Sources: Senegalese authorities; and staff estimates and projections.

1/ Kuwaiti deposit at the central bank.

2/ December 2000 figures include CFAF 32.5 billion in declassified crop credits of the 1999/2000 agricultural campaign.

Table 5. Senegal: Balance of Payments, 1998-2005 1/
(In billions of CFA francs, unless otherwise indicated)

	1998	1999	2000	2001		2002	2003	2004	2005
				Proj.	Est.		Projections		
Current account	-127	-181	-210	-206	-161	-187	-214	-222	-217
Balance on goods	-184	-213	-297	-272	-280	-278	-302	-294	-292
Exports, f.o.b.	571	632	655	740	708	763	811	862	918
Groundnuts products	31	39	60	75	66	65	70	74	77
Fish products	169	180	162	162	178	182	188	193	203
Phosphate products	85	81	72	100	86	119	132	140	146
Other exports	287	333	361	404	378	397	422	455	492
Imports, f.o.b.	-756	-845	-952	-1011	-989	-1041	-1113	-1157	-1209
Petroleum products	-81	-113	-213	-220	-199	-178	-186	-194	-203
Rice	-73	-89	-84	-88	-91	-103	-114	-125	-135
Other consumer goods	-255	-256	-260	-268	-279	-288	-294	-300	-306
Capital goods	-111	-131	-147	-145	-153	-173	-199	-208	-224
Intermediate goods	-235	-256	-247	-290	-266	-299	-320	-328	-341
Services (net)	-43	-66	-77	-66	-63	-88	-101	-103	-105
Credits	296	308	336	336	352	357	369	384	398
Of which: tourism	101	107	103	116	104	99	104	110	115
Debits	-339	-373	-414	-402	-414	-445	-471	-487	-503
Of which: interest on public debt 2/	-37	-37	-43	-37	-27	-33	-33	-31	-30
Unrequited current transfers (net)	101	98	164	132	182	179	189	175	179
Private (net) 3/	21	51	100	86	132	128	132	136	140
Public (net)	80	47	64	46	50	51	57	39	39
Of which: budgetary grants	19	4	14	0	0	7	18	0	0
Capital and financial account	165	220	191	209	228	198	231	190	250
Capital account	65	61	55	68	65	78	73	73	73
Private capital transfers	2	3	3	3	3	3	3	3	3
Project grants	63	59	53	65	62	75	70	70	70
Debt cancellation	0	0	0	0	0	0	0	0	0
Financial account	100	159	136	141	164	120	158	117	177
Direct investment	45	88	44	11	26	45	49	52	54
Portfolio investment	-14	-10	10	-10	-5	-6	-7	-7	-7
Other investment	69	81	82	141	143	81	115	72	130
Public sector (net)	40	29	26	107	64	38	63	18	72
Of which: disbursements	111	82	88	176	122	120	127	84	137
Program loans	19	0	37	103	61	49	43	0	43
Project loans	90	80	41	70	43	68	80	80	90
Other	2	2	10	4	19	4	4	4	4
Amortization 2/	-59	-54	-62	-72	-62	-72	-65	-66	-65
Private sector (net) incl. errors and omissions 3/	29	53	56	34	79	43	53	54	57
Overall balance	39	39	-18	4	67	11	17	-33	33
Financing	-39	-39	18	-4	-67	-11	-17	33	-33
Net foreign assets (BCEAO)	-15	-20	19	-28	-71	-30	-49	-4	-65
Operations account and other	-8	-12	22	-38	-73	-19	-24	27	-37
Net use of Fund resources	-7	-8	-3	11	2	-11	-26	-30	-28
Purchases	28	12	13	31	22	8	0	0	0
Repurchases	-35	-20	-16	-20	-20	-19	-26	-30	-28
Deposit money bank	-21	-19	-4	0	-9	0	0	0	0
Payments arrears (reduction -)	-3	0	0	0	0	0	0	0	0
Exceptional financing 4/ 5/	0	0	3	24	13	18	32	36	33
Residual financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance									
As percentage of GDP (incl. current official transfers)	-4.6	-6.2	-6.7	-6.1	-4.8	-5.1	-5.5	-5.3	-4.9
As percentage of GDP (excl. current official transfers)	-7.8	-7.9	-9.0	-7.5	-6.4	-6.7	-7.1	-6.4	-5.8
Exchange rate (CFA francs per U.S. dollar)	586.7	614.9	710.0	...	732.5	728.9	724.6	721.2	718.4

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ Based on January 2002 World Economic Outlook (WEO) assumptions.

2/ Interests and amortization of public debt are slightly different from those presented in the fiscal table, owing to a different treatment of the operations account debt at the Central Bank of West African States (BCEAO).

3/ For 2000, includes increase in refinery credits from suppliers.

4/ For 2000-02 interim HIPC Initiative debt relief is including as a grant for the IMF, and as exceptional financing for the World Bank, the African Development Bank, and for the Paris Club.

5/ For 2003 onward, estimates of HIPC Initiative debt relief from the IMF, World Bank, African Development Bank, and Paris Club that will become available when Senegal reaches the completion point.

Republic of Senegal
Ministry of Economy and Finance

The Minister of Economy and Finance

Dakar, March 11, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. The Executive Board of the International Monetary Fund approved the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF) on February 16, 2001 for SDR 42.804 million. The first tranche of SDR 14.268 million was disbursed in February 2001. The first review was approved on September 28, 2001, enabling Senegal to draw a tranche of SDR 9 million under the third annual arrangement, which expired on February 15, 2002. However, as the commitment period of the PRGF-supported program approved on April 20, 1998 has been extended until April 19, 2002, the government of Senegal would like to request the disbursement of the tranche related to the second review following approval of that program review by the Executive Board of the IMF.

2. Economic performance at end-September and at end-December 2001, the 2002 budget, and the reforms in the groundnut and electricity sectors were discussed in Dakar during the period October 31-November 14, 2001 and February 8-20, 2002. At end-September, all the quantitative performance criteria for the program, except for the one related to the repayment of SENELEC's arrears, were observed. As regards the structural criteria, the government announced the withdrawal of SONAGRAINES from groundnut collection and transport in August, without specifying, however, that transport and collection prices would be freely determined by the market. Both the amendment of the groundnut sector framework agreement and the adjustment of electricity tariffs in the event that the privatization of SENELEC had not been finalized, could be implemented only with some delay. In light of the remedial measures already taken, such as the dissolution of SONAGRAINES and the increase in electricity rates, the government wishes to request waivers for the late observance of certain performance criteria. The government also wishes to request an extension of the interim assistance under the enhanced HIPC Initiative until end-2002 and will request an extension of debt relief under Cologne terms from the Paris Club. The attached memorandum on economic and financial policies describes the objectives set by the government for 2002. The government will provide the IMF with the information

necessary for assessing the progress in implementing its economic and financial policies and achieving program objectives.

3. The government believes that the policies and measures set forth in the attached memorandum are adequate to achieve its program objectives, but it is ready to take, in due course, any further measures that may prove necessary for this purpose. During the period covered by an arrangement under the PRGF, the government will consult with the Managing Director of the IMF on the adoption of any measure deemed appropriate, at its own initiative or whenever the Managing Director requests such a consultation. In addition, after the period covered by an arrangement under the PRGF and while Senegal has financial obligations to the Fund arising from loans granted under that arrangement, the government will consult with the Fund periodically, at the government's initiative or whenever the Managing Director requests a consultation on Senegal's economic and financial policies.

Sincerely yours,

/s/

Cheikh Hadjibou Soumaré
Minister Delegate in charge of the Budget and Housing

Attachment: Memorandum on Economic and Financial Policies of Senegal for 2002.

SENEGAL

Memorandum on Economic and Financial Policies for 2002

Dakar, March 11, 2002

1. In its letter of August 30, 2001 to the Managing Director of the International Monetary Fund (IMF) and in the memorandum attached thereto, the government of Senegal defined its economic and financial objectives for the second half of 2001, as well as the measures it intended to implement to achieve them. To support these economic policies, the Fund's Executive Board completed the first review of the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF) on September 28, 2001 and released the related SDR 9 million disbursement. In this memorandum, the government outlines the results achieved in 2001, its analysis of the deviations observed between projected and actual performance, and the measures it intends to implement in 2002 to achieve its objectives.

I. RESULTS ACHIEVED IN 2001 AND MEASURES IMPLEMENTED

2. The Senegalese economy posted **real GDP growth** of 5.6 percent in 2001. The slowdown in the global economy following the events of September 11, 2001 had only a negligible impact on the Senegalese economy in 2001, as production in several key export sectors (groundnuts, fishing, and phosphates) had been largely achieved beforehand. Moreover, tourism, the sector potentially more vulnerable to the events, was only marginally affected. The economic impact of power outages in September and October was slight compared with those of 1999–2000. **Inflation** was moderate, despite a slight upturn owing to the rise in the prices of certain essential goods and the one-off effect of the introduction of a VAT at the single rate of 18 percent in late September; the average rate of 3.0 percent for 2001 is consistent with the WAEMU threshold. As a result of the fall in world petroleum prices, the **external current account deficit** (excluding official current transfers) narrowed by 2.6 percentage points of GDP in 2001 to 6.4 percent.

3. The program's **quantitative performance criteria** on net bank credit to the government and the basic fiscal balance at September 30 and December 31, 2001 were observed. In the last quarter of 2001, the government was faced with a major shortfall in external financing. As the disbursement of a US\$50 million tranche of a tariff reform credit from the World Bank (tied to the establishment of computer links between the various departments of the Ministry of Economy and Finance and the establishment of a regulatory framework for utilities and telecommunications) cannot be obtained before the second quarter of 2002, the government was forced to use supplementary bank financing amounting to CFAF 20 billion, as provided for in the program in the event of a shortfall in external assistance. However, although the government received the final US\$45 million tranche of the World Bank energy credit following the selection of a provisional buyer for SENELEC, the delay in the negotiations (see below) prevented the mobilization of the CFAF 20 billion in privatization receipts projected in the program. The adjusted ceiling on net credit to the

government at end-December was observed through underexecution of budget expenditure. Investment outlays, including those related to the HIPC Initiative, remained 15 percent below projections. The basic fiscal balance at end-December 2001 amounted to a deficit of CFAF 25.9 billion or 0.8 percent of GDP, and the overall deficit stood at CFAF 130.3 billion or 3.9 percent of GDP, mainly as a result of the clearance of SENELEC and SONACOS deficits (CFAF 105 billion) with the proceeds of budgetary transfers.

4. The performance criterion for end-September 2001 on the stock of debt of **SONACOS** was observed. As programmed, the government disbursed CFAF 65 billion to SONACOS in the fourth quarter, including the signing over of guarantee deposits amounting to CFAF 22 billion. Owing to a larger-than-expected drain on SONACOS's cash flow, partly related to the dissolution of SONAGRAINES (CFAF 4.0 billion) and supplementary bank charges (CFAF 3.8 billion), this transfer was not sufficient to cover the entire cumulative deficit of SONACOS.

5. The ceiling on **guarantee deposits placed by the government at local banks** at end-September 2001 was observed, and the government has not placed any new deposits since June 2001. The signing over of SONACOS guarantee deposits to banks in October and November 2001 resulted in a sizable decline in such deposits. However, at end-December 2001, guarantee deposits slightly exceeded the program ceiling, owing to the reclassification of a deposit in favor of a public enterprise that had not been taken into account in the program.

6. **SENELEC** received a total of CFAF 40 billion from the government in July and at end-September 2001. As programmed, the budgetary transfer was financed by an issue of treasury bills on September 28, 2001 (CFAF 42.9 billion). However, as a transfer of CFAF 25 billion could be made only on September 28, 2001, SENELEC did not repay all of its arrears at end-September. Although some suppliers were paid in October, SENELEC was still experiencing financial difficulties in the fourth quarter of 2001, and at end-December the company had accumulated about CFAF 7 billion of new arrears.

7. As **SENELEC's privatization plan** was amended in early November, the privatization could not be finalized on November 15, 2001 as initially planned. Nevertheless, the consortium Vivendi/O.N.E. was selected on November 20, 2001 as a new strategic partner and the government embarked on negotiations on November 26, 2001 that ended on January 31, 2002. As the negotiations with Vivendi/O.N.E. were inconclusive, the government has invited AES Frontier Ltd., the second-ranking bidder, to initiate discussions. Meanwhile **power tariffs** were increased by an average of 10 percent on March 1, 2002, which, in principle, should help reduce SENELEC's cash-flow deficit (before government subsidies) to CFAF 9-10 billion during the year.

8. As regards other **structural measures** under the program, an auditor's report designed to clarify the financial flows between the postal service and the treasury was forwarded to IMF staff on September 28, 2001. The two institutions have started reconciling their reciprocal assets and opening account balances. The postal service's cash deficit in 2001

was estimated at CFAF 17 billion, mostly explained by a cash deficit of CFAF 18 billion in early 2000, which was analyzed in detail in an audit report prepared by the Public Enterprise Audit and Oversight Committee (CVCCEP) of Senegal's General Accounting Office. The postal service took a number of steps to strengthen financial control. For instance, bookkeeping for 2001 was entrusted to an independent firm, the accounts for 1998–99 have been established, and the 2000 and 2001 accounts are being established. The auditor was changed in January 2002.

9. Discussions with producers and development partners on the **reform of the groundnut sector** continued in October and November 2001. In August, the government announced its intention to withdraw SONAGRAINES from the activity of collection and transport and establish a factory-gate delivery system. However, the announcement made no mention of the free determination of collection and transport prices that was envisaged in the program. Continued discussions aimed at reassuring the rural community and assessing various possible approaches led to the dissolution of the company on November 28, 2001. Discussions with the National Interprofessional Groundnut Committee (CNIA) and the development partners on amending the framework agreement for the sector also continued in October, and the new agreement was finalized on November 28, 2001. The government will seek agreement on a new regulatory framework with groundnut producers and its development partners, which will serve as the basis for the privatization of SONACOS. The audit report on SONACOS and SONAGRAINES was forwarded to IMF staff on December 28, 2001. It indicates that the accounting of the two enterprises is inadequate. To strengthen the supervision of SONACOS, its general management increased the number of accountants at headquarters and in the factories and has begun training staff. It will also study the possibility of establishing a new computerized accounting system. The levy on imported vegetable oil was replaced on February 13, 2002 by a domestic tax, in accordance with WAEMU regulations.

10. On December 5, 2001, SONACOS issued an invitation to bid for the organization of the collection and transport of groundnuts during the 2001/02 crop year. SONACOS specified certain conditions that must be met by private operators, including the establishment of zones and the securing of a minimum level of financing. It also set an indicative list for collection and transport prices, although the performance criterion for end-December concerning the withdrawal of SONAGRAINES had specified that collection and transport prices would be determined freely by the market. Moreover, a number of operators were approved for specific operating zones after the cutoff date of the invitation to bid because no bids had been submitted. The government believes that these measures were necessary to ensure the success of the first crop year under the new factory-gate delivery system.

11. As programmed, on December 28, 2001 the government submitted a bill to **reform the National Pension Fund (FNR)** to the national assembly; the bill was approved on February 13, 2002. Although the reform is expected to achieve equilibrium in the FNR's accounts over the next five-ten years, other measures will be needed to secure the long-term equilibrium envisaged in the program. With technical assistance from the World Bank, the

government will continue to look for a comprehensive solution for the pension system, including IPRES, and will also examine the possibility of boosting domestic saving through a funded system.

12. Since end-June 2001, the government has routinely applied the **pass-through mechanism for petroleum products**, except for small bottles of butane gas. Since then, there have been no government subsidies for petroleum products except for butane gas. However, the government has not yet paid the whole revenue loss experienced by the oil refinery (SAR) as a result of the freeze on prices; it also has not paid the subsidies for fuel delivered to SENELEC and for butane, owing to the SAR's pending submission of acceptable documents to support such payments. The amounts invoiced will be paid as soon as supporting documentation has been presented and found acceptable.

13. The monetary survey showed a slight increase of 4.7 percent in credit to the economy in 2001, owing to the repayment of most of SENELEC's arrears and the debt of SONACOS. The repayment of SENELEC's arrears enabled the petroleum companies and the SAR to retire some of their bank credit. The contraction of public enterprise loans during the year considerably reduced the risk concentration in commercial bank portfolios. In 2001, the money supply grew by 14.4 percent.

II. GOVERNMENT PROGRAM FOR 2002

14. The government's economic policy in 2002 is aimed at maintaining a **real economic growth** rate of about 5 percent and keeping inflation in check. Real GDP growth will be supported by sustained activity in the secondary sector as a result of investments in energy and mining, as well as by continued buoyancy in the tertiary sector. Inflation is expected to fall to 2.3 percent over the year, and the external current account deficit (excluding official current transfers) is projected at 6.7 percent of GDP. These projections take into account the slowdown in global economic activity following the events of September 11, 2001. The program of the Senegalese government aims to consolidate economic growth by speeding up structural reforms, redirecting government expenditure to priority sectors, and increasing public savings following the public enterprise deficits observed in 2001.

A. Government Finance

15. In executing the 2002 budget, the government will prioritize social spending while capping overall expenditure at a level consistent with the achievement of a **budget deficit, excluding grants**, of 2.6 percent of GDP, that is, a reduction of 1.3 percentage points of GDP compared with 2001. The **basic fiscal surplus** will amount to 1.3 percent of GDP, compared with a basic deficit of 0.8 percent in 2001. The expected improvement is attributable to the growth in revenue and the elimination of subsidies for petroleum products granted to public enterprises in 2001. To achieve the envisaged tax revenue growth of 1 percentage point of GDP to 18.1 percent, the government is counting on the full-year effect of the single VAT rate in 2001, as well as on steps to strengthen control and computerization. Aware of the importance of domestic saving and debt sustainability following the public

enterprise deficits of 2001, the government has decided to reduce domestic debt in 2002 with resources expected from the World Bank. Moreover, the use of prospective privatization receipts will be consistent with the maintenance of a sound macroeconomic framework.

16. **Total expenditure** and net lending will be limited to CFAF 772.7 billion (21.2 percent of GDP) in 2002, including expenditure within the framework of savings related to the HIPC Initiative, estimated at CFAF 31.7 billion. The wage bill will increase by 11.7 percent to CFAF 198 billion, taking into account the impact of the reform of the National Pension Fund (FNR), estimated at CFAF 7.5 billion. Transfers and subsidies will be limited to CFAF 104.4 billion, and the government projects a subsidy of CFAF 10 billion for SENELEC. Social safety net expenditure (subsidies on small bottles of butane gas) will total CFAF 9.2 billion, and the budget does not provide for any transfer or subsidy to SONACOS, or any subsidy for petroleum products (except for butane gas). Capital expenditure is projected at CFAF 271.2 billion, of which 47 percent will be financed from external resources.

17. The government's desire to reduce poverty can be seen in its **budget priorities**. The main actions planned in this context relate, in particular, to an increase in the education budget, which is expected to grow from 31.6 percent of budgetary expenditure (including foreign-financed investment spending) in 2001 to 32.0 percent in 2002, as well as an increase in the health budget to 9.2 percent of budgetary expenditure. To strengthen decentralization, the government will provide additional appropriations to local governments in the amount of CFAF 2.5 billion.

B. Structural Reforms

18. For the **financing of the 2001/02 agricultural campaign**, SONACOS has secured CFAF 29 billion from foreign banks at end-January and early February and a total of CFAF 11 billion from a local banking pool. The company expects to mobilize a further CFAF 25 billion in March. These loans are backed by export contracts and vegetable oil sales in the domestic market and are to be repaid in 2002. At any rate, the government will not guarantee any SONACOS loans and will not place any further security deposits in favor of SONACOS. In light of the constraints imposed by the world groundnut oil market and the limited domestic market, the government publicly announced in January 2002 that SONACOS purchases will be strictly capped at a level that allows for the sale of all groundnuts purchased and the stocks carried over from the 2000/01 crop, estimated at 125,000 metric tons of groundnuts (equivalent to 40,000 metric tons of unrefined vegetable oil), so as to avoid any further debt accumulation. On the basis of the 2000 and 2001 performances, the viable export contracts already signed, and the current milling capacity, the government believes that SONACOS can sell 115,000 metric tons of unrefined vegetable oil on the world market at US\$680 a metric ton, and sell about 60,000 metric tons of vegetable oil locally assuming that the company imports only 20,000 metric tons of unrefined vegetable oil. On this basis, SONACOS should not buy more than 400,000 metric tons of hulled groundnuts during the 2001/02 crop year.

19. The government will continue to pursue its **policy of liberalizing the groundnut sector**. An action plan for the privatization of SONACOS before the 2003 plantings will be developed by June 30, 2002. The government expects to finalize a privatization strategy and its discussions with sector participants concerning the future structure of the sector during 2002, and it will issue an invitation to bid by December 31, 2002. Concerning the framework agreement for the sector, the government, following exchanges with development partners on how to best manage the guarantee, disaster, and groundnut sector support funds, as well as on its intended role in the sector, plans to make the necessary amendments to avert an adverse impact on public finances and to safeguard the financial soundness of SONACOS.

20. **SENELEC's financial situation** remains difficult despite falling world oil prices. Because of its obsolete equipment and an inefficient distribution of installations between base load power plants (using heavy fuel) and other turbines, SENELEC cannot generate electricity at competitive rates and faces supply constraints. Furthermore, the chronic operating deficits have not permitted the emergence of sufficient internal resources to finance much-needed capacity expansion. The government will continue searching for an investor who is prepared to finance necessary investments in SENELEC without government guarantees. However, owing to the need to expand capacity as quickly as possible so as to lower the cost of electricity generation and avert power outages, SENELEC has prepared an invitation to bid on a new power plant and the government will seek concessional financing for these investments.

21. **The postal service** will pursue the program of reforms that was described in the CVCCEP action plan and converted into presidential directives in June 2000, including an amendment to the agreement between the treasury and the postal service to better safeguard the resources of the treasury. Negotiations to spin off the postal checking service (CCPs) as a subsidiary will also continue. A joint Treasury-Postal Service Committee will continue meeting regularly to reconcile the reciprocal balances and flows in the accounts of the postal service at the treasury. Despite the increase in postal rates in May 2001, which considerably boosted revenue, the postal service will have difficulties in reimbursing treasury advances (*nivellements décadaires*) and servicing its maturing debts. A World Bank mission in February 2002 analyzed the structural problems faced by the postal service and will make recommendations for ensuring its long-term financial viability. The projected deficit to be borne by the treasury in 2002 is estimated at CFAF 2 billion. The government has also asked an independent firm to assess the value of public services provided by the postal service; starting in 2003, it plans to record in the budget a compensation for these services to be agreed with the postal service.

C. Monetary and Banking Sector

22. The program contains prudent monetary targets that are consistent with the government's fiscal policy and the envisaged decline in inflation. The money supply is expected to grow by 7.9 percent in 2002, the same rate as nominal GDP. Net credit to the government should decline by CFAF 24.6 billion, and credit to the economy should grow by about 10 percent. With a view to deepening monetary integration and facilitating interbank

transactions, the regional central bank (BCEAO) will pursue the development of a computerized payments system. In addition, ongoing efforts to boost the efficiency of the judiciary are expected ultimately to reduce the incidence of loan delinquencies. Regarding the phasing out of statutory advances from the BCEAO to WAMU member countries, the WAEMU Council of Ministers will take a coordinated decision within the Union, based on the outstanding balances at end-December 2001.

D. HIPC Initiative and PRSP

23. Substantial progress has been made in the **preparation of the full-fledged poverty reduction strategy paper (PRSP)**, as described in a progress report submitted to IMF staff and the World Bank in December 2001. All the PRSP modules were completed between June and December 2001. In this regard, regional consultations led to the definition of priority objectives and tracking indicators, as well as the identification of poverty reduction measures and an action plan. The thematic groups deepened the focus of the discussions on poverty and defined the specific objectives, necessary actions, and costs. A preliminary draft of the full PRSP, incorporating the results of the above-mentioned consultations, was submitted for the consideration of World Bank and IMF staffs in December 2001, after the holding of a validation seminar. The government expects to submit the full PRSP to the IMF and World Bank Boards during the first half of 2002.

24. The government plans to implement the necessary measures for reaching the **enhanced HIPC Initiative completion point** in 2002. In particular, nine public enterprises will be privatized by end-June 2002. The discussions on a concession contract for the Dakar-Bamako railway have advanced, and the government believes that the contract can be signed by end-June 2002. In addition, the discussions have started on an increase in the capital of the cotton company (SODEFITEX), and the process of privatizing the company for industrial development of Dakar (SODIDA) will be completed in June. Furthermore, six other enterprises will be privatized by end-June 2002. In the health sector, the government expects to receive new information on the relevant indicators after a resumption of data gathering by employees in the sector.

25. The government attaches a high priority to improving the **tracking of public expenditure**. A first step in that direction will be taken with the implementation of the WAEMU community guidelines on government finance. After the passage of the new organic law, the 2002 general budget now includes specific budgets (*comptes annexes*), related to investment expenditure financed with grants and loans, that will make government priorities more transparent. Moreover, to improve the tracking of priority poverty alleviation expenditure, the government has adopted an action plan based on the joint analysis of the World Bank and the IMF staffs. In the education and health sectors, a performance-based budget will be implemented in 2002. The government wishes to request technical assistance from the IMF to improve the management of external public debt. This technical assistance will be based on a diagnostic analysis of the existing mechanism and will result in recommendations to improve the monitoring of external public debt.

III. PROGRAM MONITORING

26. The program supported by an arrangement under the PRGF will expire on April 19, 2002, and the government plans to request IMF support under a new three-year arrangement under the PRGF in the course of 2002. Accordingly, the government has established indicative quantitative benchmarks for end-March and end-June 2002 as a basis for assessing performance in the coming months. In addition, the government will pursue the above-mentioned structural reforms, which could be developed further under a new program supported by an arrangement under the PRGF.

Table 1. Senegal: Quantitative Performance Criteria and Benchmarks, 2001-02 1/

(In Billions of CFA francs, unless otherwise indicated; cumulative from the beginning of the year)

	March 31, 2001		June 30, 2001		September 30, 2001		December 31, 2001		March 31, 2002		June 30, 2002	
	Performance criteria	Real	Benchmark	Real	Performance criteria 2/	Adjusted performance criteria 3/	Performance criteria 2/	Adjusted performance criteria 4/	Real	Adjusted performance criteria 4/	Performance criteria 2/	Adjusted performance criteria 4/
Performance criteria and benchmarks												
Floor on the basic budgetary balance 5/	-10.3	13.9	19.4	51.0	5.8	9.7	35.5	-63.2	-45.4	-25.9	15.5	46.2
Ceiling on the stock of net bank credit to government	207.7	181.7	186.0	130.0	203.0	191.2	157.2	190.2	191.2	180.8	189.4	144.2
Ceiling on subsidies owing to the freeze on the prices of petroleum products (excluding butane) 6/	9.0	6.8	12.0	8.0	...	...	...	...	...	...	...	...
Ceiling on the stock of government domestic payments arrears 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the stock of government external payments arrears 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the stock of debt of SONACOS	...	...	...	116.7	98.0	98.0	91.6	0.0	0.0	17.3	65.0	55.0
Ceiling on the stock of arrears of SENELEC	...	...	...	41.0	0.0	0.0	29.8	0.0	0.0	6.9	0.0	0.0
Ceiling on the stock of guarantee deposits of the government	...	33.0	...	43.5	43.5	43.5	38.0	4.0	4.0	4.5	4.5	4.5
Quantitative benchmarks												
Floor on fiscal revenue	136.0	140.7	201.1	300.3	445.1	445.1	437.7	592.1	592.1	576.8	160.5	343.6
Ceiling on the wage bill	46.5	44.4	93.1	88.3	135.9	135.9	132.5	181.0	181.0	177.3	49.5	99.0
Floor on the deficit (-) of the postal service in the correspondent accounts of the treasury	0.0	-8.8	0.0	-13.1	0.0	0.0	-8.1	0.0	0.0	-7.1	-2.0	-2.0
Floor on the deficit (-) of the National Retirement Fund in the special accounts of the treasury	-1.5	-2.5	-3.0	-4.4	-6.6	-6.6	-7.2	-9.0	-9.0	-9.7	0.0	0.0
Memorandum items:												
Exceptional financial assistance	41.7	29.4	50.0	29.4	29.4	29.4	29.4	102.7	102.7	60.6	3.7	40.1
Programmed privatization receipts	0.0	0.0	0.0	0.0	1.1	1.1	1.1	21.1	21.1	1.1	0.0	0.0
Programmed, unspent HPC initiative debt relief ⁷	5.1	0.2	10.2	9.7	9.2	9.2	12.5	3.8	3.8	10.2	7.7	5.2

1/ The criteria, benchmarks, and adjusters are defined in the technical memorandum of understanding attached to the letter of intent dated August 30, 2001.

2/ EBS01/151 (8/31/01).

3/ Corrected for CFAF 11.4 billion of treasury bills held outside the banking system, and HIPC-related adjusters for credit (3.3 billion) and basic balance (3.9 billion) ceilings.

4/ Corrected for CFAF 15.5 billion of treasury bills held outside the banking system, CFAF 20 billion to make up for external financing shortfall, and HIPC-related adjusters for credit (6.4 billion) and basic balance (17.8 billion) ceilings.

5/ Overall budget deficit, excluding foreign-financed investment expenditure and gross lending; budgetary revenue excludes privatization receipts, which are treated as a financing item.

6/ Subsidies are defined on the basis of volumes consumed (see the technical memorandum of understanding) and therefore do not necessarily correspond to the values in the fiscal table.

7/ The continuous criterion on the application of the pass-through mechanism for petroleum products implies a nonaccumulation of subsidies after the reintroduction of the mechanism on June 29, 2001.

7/ These criteria will be monitored on a continuous basis.

Table 2. Prior Action

Increase in electricity tariffs by 10 percent on March 1, 2002.

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Senegal: Relations with the Fund
(As of January 31, 2002)

I. **Membership Status:** Joined August 31, 1962; Article VIII as of June 1, 1996

II. General Resources Account:	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	161.80	100.0
Fund holdings of currency	160.38	99.1
Reserve position in the Fund	1.44	0.9

III. SDR Department:	<u>SDR Million</u>	<u>Percent of Allocation</u>
Net cumulative allocation	24.46	100.0
Holdings	3.63	14.9

IV. Outstanding Purchases and Loans:	<u>SDR Million</u>	<u>Percent of Quota</u>
Poverty Reduction and Growth Facility (PRGF) arrangements	195.20	120.6

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
PRGF	April 20, 1998	April 19, 2002	107.01	87.47
PRGF	August 29, 1994	January 12, 1998	130.79	130.79
Stand-By Arrangement	March 2, 1994	August 29, 1994	47.56	30.91

VI. **Projected Obligations to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u>	<u>Forthcoming</u>				
	<u>01/31/02</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal	0.0	18.4	27.9	33.3	31.2	26.20
Charges/interest	0.0	1.4	1.3	1.1	1.0	0.80
Total	0.0	19.8	29.2	34.4	32.2	27.00

VII. Implementation of HIPC Initiative:¹

	<u>Enhanced Framework</u>
Commitment of HIPC Initiative assistance	
Decision point date	June 21, 2000
Assistance committed (NPV terms) ²	
Total assistance (US\$ million)	488.3
<i>Of which:</i> Fund assistance (SDR million)	33.8
Completion point date (expected)	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	4.78
Interim assistance	4.78
Completion point ³	...
Amount applied against member's obligations (cumulative)	4.78

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Central Bank of West African States (BCEAO), of which Senegal is a member, is subject to a full Stage One safeguards assessment. That assessment was completed on July 25, 2001. The assessment concluded that high risks may exist under the BCEAO's current reporting framework but it did not draw conclusions about either the bank's internal audit reporting mechanism or the internal control structure. The assessment recommended an on-site mission, which was conducted in October 2001. A report on the findings and recommendations of the mission is being prepared.

¹ Senegal was not eligible for the HIPC Initiative under the original framework.

² NPV (net present value) terms at the decision point under the enhanced framework.

³ Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

IX. Exchange Rate Arrangement:

Senegal is a member of the West African Monetary Union (WAMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1. On March 12, 2002, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 939.86.

X. Article IV Consultations:

Senegal is on the standard 12-month Article IV consultation cycle. The 2001 Article IV consultation was completed by the Executive Board on September 28, 2001 (EBS/01/151; 8/31/01, and SM/01/276; 8/30/01).

XI. Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) Participation:

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (SM/01/272; 8/24/01). A ROSC mission on data issues was conducted by STA in September 2001.

XII. Technical Assistance:

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	February– March 1996	Strengthening of tax and customs administration.
FAD	Staff/consultants	January– February 1998	Assessment of revenue impact of new external tariff structure (TEC). Advice given to authorities on measures to correct revenue shortfall stemming from the introduction of TEC.
FAD	Staff/consultants	March 1999	Assessment of the reforms to value-added tax (VAT) required to offset the fiscal impact of the TEC.
STA	Staff	March-April 2000	Assessment of real sector statistics and proposal of improvements.

FAD	Staff/consultants	May 2000	Assessment of macrofiscal practices and review of the operation of special accounts at the treasury.
FAD	Staff/consultants	October 2000	Budgetary aspects of petroleum sector policies.
STA	Staff	April 2001	Assessment of the statistical capacity of the Directorate of Forecasting and Statistics.
STA	Staff	September 2001	ROSC assessment of data.
FAD	Staff/consultant	September 2001	Assessment of capacity to track poverty-reducing expenditures.

XIII. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Koffi Yao since March 25, 2000.

XIV. Fourth Amendment of the Articles of Agreement and the Eleventh Quota Review

The authorities have indicated their agreement with the Fourth Amendment of the Articles of Agreement. The increase in Senegal's quota under the Eleventh General Review of Quotas was completed on February 11, 1999.

Senegal: Relations with the World Bank Group

(As of January 31, 2002)

Commentary on lending operations

1. The main objective of the Bank's assistance strategy for Senegal is to reduce the incidence of poverty and create gainful employment. The approved lending program for the period fiscal-year (FY) 1998-2000 under the Country Assistance Strategy (CAS) was implemented satisfactorily. To achieve the objective of the CAS, Bank support was a two-pronged strategy: (a) supporting policies and programs for more rapid and sustained growth; and (b) ensuring the social sustainability of programs. The strategy was implemented through a combination of structural adjustment lending, sector investment programs (SIPs), specific investment lending, and appropriate nonlending operations. To follow up on the achievement of the FY 1998-2000 Country Assistance Strategy (CAS), preparation of a new CAS is under way and is expected to be presented to the Board in FY 2003.

2. As of January 31, 2002, the World Bank had approved 122 credits for Senegal for a total amount of about US\$2.4 billion. Past projects had supported agricultural diversification, irrigation, human resources development, institutional development, and expansion of the country's infrastructure, particularly its transport system. In recent years, the emphasis had shifted to better utilizing and maintaining existing facilities and to helping the government resolve some of the key issues related to long-term development prospects. The current active portfolio represents a commitment value of about US\$835.9 million equivalent, with an undisbursed balance of about US\$559.2 million. The portfolio is composed of 19 credits in various sectors (agriculture, human resources: population/health/nutrition/education, infrastructure/urban development, energy/water, industry, and private sector development) and one GEF grant for sustainable participatory energy management. Three credits were approved in FY 2001: (a) an Adjustment Operation (Trade Reform and Competitiveness) to assist in liberalizing trade, facilitating trade and tax procedures, and supporting regulatory programs that promote competitive pricing of public utility inputs to the productive sector; (b) a Social Development Fund Program to assist in building the capacity of the poor communities to effectively manage their own development resources and economic and social services with equal participation; and (c) a Long-Term Water project to assist in achieving sustainable improvements in the delivery of urban water and sanitation services in unserved and low-income areas of the capital city of Dakar and the secondary cities. An HIV/AIDS Prevention and Control project was approved on February 7, 2002 but is not yet effective. Two operations in the pipeline (for expected Board presentation in FY 2002) include a Private Investment Promotion project, and a Nutrition Enhancement project.

3. As of January 31, 2002, the International Finance Corporation (IFC) had six active investments totaling about US\$40 million. They comprise two financial services; one fishery project; one leather-manufacturing operation; one cement factory, and one power project (the first independent power project in Senegal). Three additional investments have not yet become effective.

4. The Bank and IFC continue to coordinate their respective roles in providing an enabling environment for private sector development for Senegal. The Bank is concentrating on factors that improve the business environment, and the IFC, with its office in Dakar, is increasing its direct support to the private sector, especially in the area of power, mining, small and medium-sized businesses, privatization, and capital markets.

Status of Bank Group Operations in Senegal—Operations Portfolio

(As of January 31, 2002)

Closed credits: 102

Credit No.	Active Projects		Fiscal Year	IDA	Undish	Disb
	Project Name					
3470-0	Long-Term Water Sector		2001	125.0	120.7	0.8
3446-0	Social Development Fund Program		2001	30.0	27.7	1.6
3419-0	Trade Reform and Competitiveness		2001	100.0	46.9	48.1
3398-0	Distance Learning Center – LIL		2000	2.1	0.8	1.2
3354-0	Urban Mobility Improvement Project		2000	70.0	62.6	2.2
3333-0	Quality Education for All Program		2000	50.0	40.0	5.6
3315-0	National Rural Infrastructure		2000	28.5	23.7	1.8
3289-0	Public Service Info-Systems Modeling		2000	10.2	7.4	2.0
3219-0	Agricultural Services & Prod. Org.		1999	27.4	21.2	4.0
3183-0	Transport II		1999	90.0	74.9	5.2
3017-0	Agricultural Export Promotion		1998	8.0	4.5	3.0
3006-0	Urban Development and Decentralization		1998	75.0	41.8	28.3
2985-0	Integrated Health Serv. Development		1998	50.0	25.1	20.7
2972-0	Regional Power		1997	10.5	2.7	7.4
2963-0	Sustainable Part.Energy Management		1997	5.2	2.9	2.0
2951-0	Endemic Diseases		1997	14.9	10.4	3.2
2872-0	Higher Education		1996	26.5	6.0	18.3
2873-0	Pilot Female Literacy		1996	12.6	0.5	11.2
2758-0	Water Sector		1995	100.0	39.4	42.4
	Total			835.9	559.2	209.0

IFC - Committed and Disbursed Portfolio

(In millions of U.S. dollars, as of January 31, 2002)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Participation	Loan	Equity	Quasi	Participation
1996/97/98	SERT	0.09	0	0	0	0.09	0	0	0
1980	BHS	0	0.46	0	0	0	0.46	0	0
1999	Ciments du Sahel	12.27	2.15	2.15	0	0	0	0	0
1997	GTI Dakar	11.07	1.57	0	9.13	7.57	1.27	0	9.13
1998	SENTA	0.17	0	0	0	0.17	0	0	0
1994/96	SOGECA	0	0	0	0	0	0.0	0	0
Total portfolio:		23.6	4.18	2.15	9.13	7.83	1.73	0	9.13
Approvals Pending Commitment									
		Loan	Equity	Quasi	Participation				
	2001 Royal Saly	1.0	0	0	0				
	2000 SGBS IFC/PSD	3.4	0	0	0				
	2000 CITI IFC/PSD	3.4	0	0	0				
Total pending commitment:		7.8	0	0	0				

Notes : BHS = Banque Habitat du Senegal (financial); SOGECA = Société générale de crédit automobiles (financial); SERT = Société d'exploitation des ressources thonnères (fishery); GTI Dakar = Power Project; SENTA = Senegal Tanerie (leather)

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 02/28
FOR IMMEDIATE RELEASE
April 8, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Completes Second Review Under Senegal's PRGF Arrangement and Approves US\$11 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has discussed Senegal's performance and completed the second review of the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF). As a result, Senegal will be able to draw up to SDR 9 million (about US\$11 million) under the arrangement immediately.

Senegal's three-year PRGF arrangement was approved on April 20, 1998 (see [Press Release 98/15](#)) for SDR 107.01 million (about US\$134 million). So far, Senegal has drawn SDR 87.47 million (about US\$109 million).

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

EXTERNAL RELATIONS DEPARTMENT

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After the Executive Board's discussion on Senegal, Mr. Eduardo Aninat, Deputy Managing Director, and Acting Chair, stated:

"Senegal's macroeconomic performance in 2001 continued to be characterized by rapid growth and low inflation. Despite the emergence of important financial imbalances in the groundnut and power parastatals, covered by budgetary transfers, the overall budget deficit, excluding grants, was contained at less than 4 percent of GDP, in part through a delay in investment expenditure.

"The Fund welcomes the Senegalese government's resolve to address the structural problems of the groundnut sector, which still accounts for a large share of rural employment. The authorities are urged to step up efforts in this area, building on the measures implemented in 2001 to stem fiscal pressures, encourage further private sector involvement, and pave the way for the scheduled privatization of the groundnut marketing company (SONACOS) by mid-2003.

"Regardless of the outcome of the discussions on the privatization of the power utility (SENELEC), major operational improvements are required to avert supply bottlenecks and fiscal pressures, as are timely investments to expand SENELEC's capacity. The government's decision to raise tariffs on March 1, 2002, is commendable and in addition to cost-cutting measures, further tariff adjustments later this year may be necessary—especially if fuel costs turn out to be higher than originally projected.

"The Fund welcomes the government's first steps toward reducing the unfunded future liabilities of the civil service pension fund. In the interest of securing long-run fiscal sustainability, it will be important to deepen and broaden the pension reform, in cooperation with the World Bank, as soon as feasible—if necessary in a phased manner.

"The Fund looks forward to completion of the full PRSP during the next few months, which is expected to lay a sound foundation for future Fund support through an arrangement under the PRGF. The PRSP will also provide a framework for allocation of resources that will be freed up under the enhanced Heavily Indebted Poor Country Initiative. To sustain the investment in the social sectors, it will be important to speedily implement the conditions for reaching the completion point under the HIPC Initiative—especially improving the size and quality of basic social services. In the meantime, the Fund will continue to support Senegal's efforts to reduce poverty by extending the interim assistance under the HIPC Initiative until end 2002," Mr. Aninat stated.

Statement by the IMF Staff Representative
April 5, 2002

1. This statement provides information that has become available since the issuance of the staff report for the second review under Senegal's third annual PRGF arrangement (EBS/02/50; 3/21/02). It does not change the thrust of the staff appraisal.
2. Inflation fell slightly from 3.9 percent during 2001 to 3.7 percent during the 12 months through end-February 2002.
3. Tax revenues in the first two months of 2002 increased by 15 percent over the same period in 2001, auguring well for meeting the revenue target for the first quarter. Recent data on net credit to government suggest that the end-March indicative credit ceilings will be observed and that government spending has so far remained broadly in line with projections for 2002.
4. In the groundnut sector, initial financial and transportation bottlenecks faced by private operators under the new system of factory-gate delivery appear to have been largely overcome. Some 170,000 tons of raw groundnuts have thus far been delivered to the state marketing company (SONACOS) and significant sales outside official channels have also reportedly taken place. The recent weakening in international prices of groundnut oil and a fire in one of the major processing plants of SONACOS (which will require 45 days for repairs) may nevertheless prompt the company to scale back its groundnut purchases during the 2001/02 crop to below the limit of 400,000 tons set under the program and to curtail its recourse to commercial bank financing (originally projected at CFAF 65 billion). SONACOS has thus far mobilized CFAF 45 billion in net resources from domestic and foreign banks for the current campaign, besides the rollover of CFAF 9 billion in debts from the previous campaign.
5. The prior action on electricity tariffs has been satisfied via a 10 percent increase effective March 1, 2002. After the collapse of SENELEC privatization talks with the winning bidders (a consortium led by the French group Vivendi), the authorities have initiated discussions with the second-ranked bidder, the American utility AES Frontier. Meanwhile, they have appointed a new director-general of SENELEC with a mandate to stabilize the company's finances after the recent tariff hike, including through an intensified effort to reduce costs.
6. Since the beginning of 2002, the postal service has continued to record a sizable deficit in its correspondent accounts with the Treasury, owing in part to seasonal factors and a strike. The suspension of residential mail delivery (announced earlier this year) has been postponed until 2003 to allow households sufficient time to obtain post office boxes, which are now mandatory for business and public sector deliveries. The authorities are continuing to monitor the postal service finances closely in order to meet program targets, and they are considering a number of corrective measures proposed by a recent World Bank mission, including improvements in operating efficiency (by upgrading information technology and

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strengthening management and control procedures), and passage of enabling legislation to clarify the relations between the postal service and the government.

7. Following recent discussions with World Bank and Fund staff, the authorities have agreed in principle to establish an investor council in Senegal aimed at improving the business climate and reducing obstacles to domestic and foreign private investment. A launch gathering of participants chaired by President Wade is tentatively envisaged for September 2002.