

**FOR
AGENDA**

EBS/10/208
Supplement 1

November 15, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Senegal—Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on the sixth review under the Policy Support Instrument for Senegal, its request for a three-year Policy Support Instrument and the cancellation of the current Policy Support Instrument (EBS/10/208, 11/15/10), which is tentatively scheduled for discussion on **Monday, November 29, 2010**. Unless an objection from the authorities of Senegal is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Funke (ext. 38033), Mr. Lakwijk (ext. 38819), and Mr. Gitton (ext. 39347) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, November 23, 2010; and to the African Development Bank, the European Commission, the Islamic Development Bank, the Organisation for Economic Cooperation and Development, and the West African Economic and Monetary Union, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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Department Heads

INTERNATIONAL MONETARY FUND

SENEGAL

**Senegal—Sixth Review Under the Policy Support Instrument,
Request for a Three-Year Policy Support Instrument and Cancellation of Current
Policy Support Instrument—Informational Annex**

Prepared by the African Department
(In collaboration with other departments)

Approved by Roger Nord and Thomas Dorsey

November 12, 2010

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR 138.33 million (85.5 percent of quota) at end-September 2010.
- **JMAP Implementation.** Describes Bank-Fund collaboration.
- **Statistical Issues.** Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data particularly on national accounts, production, and social indicators.

SENEGAL: RELATIONS WITH THE FUND
(As of September 30, 2010)

I. Membership Status: Joined: August 31, 1962; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	161.80	100.00
Fund holdings of currency	160.04	98.91
Reserve Position	1.77	1.09

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	154.80	100.00
Holdings	130.33	84.19

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
ESF Arrangements	121.35	75.00
PRGF Arrangements	16.98	10.50

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESF	Dec 19, 2008	Jun 18, 2010	121.35	121.35
PRGF	Apr 28, 2003	Apr 27, 2006	24.27	24.27
PRGF	Apr 20, 1998	Apr 19, 2002	107.01	96.47

VI. Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal		2.08	3.47	3.47	11.56
Charges/Interest	0.02	0.07	0.41	0.40	0.39
Total	0.02	2.15	3.88	3.87	11.94

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	June 2000
Assistance committed by all creditors (US\$ Million) ¹	488.30
Of which: IMF assistance (US\$ million)	42.30
(SDR equivalent in millions)	33.80
Completion point date	April 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	33.80
Interim assistance	14.31
Completion point balance	19.49
Additional disbursement of interest income ²	4.60
Total disbursements	38.40

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million) ³	100.32		
	Financed by: MDRI Trust	94.76		
	Remaining HIPC resources	5.56		
II.	Debt Relief by Facility (SDR Million)			
		EligibleDebt		
	<u>Delivery Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
	January 2006	N/A	100.32	100.32

¹ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence the two amounts cannot be added.

² Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

³ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Senegal. A safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established, and follow-up on internal and external audit recommendations has been strengthened. The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The ongoing implementation of the Institutional Reform of the WAMU and the BCEAO should help correct that situation. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

X. Exchange System:

Senegal is a member of the West African Economic and Monetary Union (WAEMU). 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.

The authorities confirmed that Senegal had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund if any such measure is introduced.

Aspects of the exchange system were also discussed in the February 2010 report on economic developments and regional policy issues of the WAEMU.

XI. Article IV Consultations:

The latest Article IV consultation was completed by the Executive Board on May 24, 2010 (Country Report No.10/165). In concluding the 2010 Article IV consultation, Executive Directors welcomed the broadly satisfactory implementation of the Senegalese authorities' economic program supported under the PSI and the ESF. While Senegal's risk of debt distress is low, Directors underscored the need to gradually withdraw the temporary fiscal stimulus and reduce the budget deficit to a level consistent with debt sustainability. They

welcomed the authorities' plans to further strengthen revenue collection and stressed that spending pressures had to be contained to preserve macroeconomic stability and debt sustainability and meet the WAEMU convergence criteria, while safeguarding priority spending. Directors supported efforts to reform public financial management and emphasized the need to maintain the reform momentum. They encouraged the authorities to improve their liquidity and debt management to complement the increasing integrity of their budget framework and expressed concern about program slippages that indicate that closer attention needs to be paid to spending procedures and control mechanism. Directors saw room for further strengthening the authorities' investment planning and evaluation with a view to ensuring high productivity of government spending. They underscored the need to overcome the weak export performance and to improve competitiveness through a more supportive business climate and better governance that would stimulate private-sector growth. Directors underlined that other complementary policies need to be put in place to regain Senegal's growth momentum and return to previous growth trajectories. Sustained efforts are required to enhance the financial sector's contribution to the economy. Directors also encouraged the authorities to implement their energy sector reform plan to limit supply bottlenecks and fiscal risks.

XII. 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 (IMF Country Report No. 01/189). An FSAP update was undertaken in June 2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit), in line with the priorities defined in the PRSP (IMF Country Report No. 05/126). A regional FSAP for the WAEMU was undertaken in the second half of 2007.

A ROSC on the data module, based on a September 2001 mission, was published on December 2, 2002. An FAD mission conducted a ROSC on the fiscal transparency module in January 2005.

XIII. Technical Assistance:

A. AFRITAC West

Year	Area	Focus
2003	Debt management and financial markets	Upgrading of information systems; techniques of external debt management
	Microfinance	Initiate work with BCEAO and donors
2004	Public expenditure management	Workshop
	Debt management and financial markets	Evaluation of software for improving debt management; workshop on AFL/CFT
	Public expenditure management	Decentralization; evaluation of TA needs

Year	Area	Focus
	Debt management and financial markets	Assessing need for capacity improvement
2005	Macroeconomic statistics	Making fiscal data conform to WAEMU and other international norms
	Microfinance	Inspection and control; workshop on good governance; training of government supervisory personnel
2006	Customs administration	Software risks
	Tax administration	Reforms and TA needs
	Macroeconomic statistics	Evaluating implementation of prior TA and future needs
	National accounts	Work program for improvement and statistical action plan
	Microfinance	Supervision
2007	Customs administration	Risk analysis and control
	Tax administration	Modernization
	Debt management and financial markets	Assessing TA needs; regional workshop on external debt statistics
	Macroeconomic statistics	Public finance statistics
	National accounts	Institutional sectors and quarterly national accounts; regional workshop on government accounts
	Microfinance	Supervision
2008	Debt management and financial markets	DSA workshop
	National accounts	Institutional sector and quarterly national accounts
	Microfinance	Supervision and organization
2009	National accounts	Quarterly national accounts (QNA)
	Tax administration	Status of the reform and scope for further TA
	Debt management	Strengthening public debt management
	Microfinance	Strengthening microfinance supervision
	Macroeconomic and financial statistics	Enhancing production and dissemination of public finances statistics
2010	Debt management	Strengthening public debt management
	National accounts	Quarterly national accounts (QNA)
	Customs administration	Follow-up mission
	Tax administration	Tax administration modernization
	Customs administration	Follow-up mission

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	September 2001	Staff/consultant	Assessment of capacity to track poverty-reducing expenditures
	February 2004	Staff	Fiscal reporting
	November 2004	Staff	PSIA—Poverty and social impact analysis
	January 2005	Staff	ROSC
	January 2008	Staff	Public-Private Partnerships
	February 2008	Staff	PSIA—Poverty and Social Impact Analysis
	October 2008	Staff/AFRITAC	Public financial management
	April 2009	FAD Expert	Public financial management
	Nov. 2009	Staff/AFRITAC	Revenue administration
	January 2010	FAD Expert	Review of the expenditure chain
	February 2010	Staff/AFRITAC	Public financial management
	Jul./Aug. 2010	FAD Expert	PFM (Treasury Single Account and cash forecasts)
	October 2010	Staff/Expert/AFRITAC	Revenue administration
	Nov. 2010	Staff/Expert	Review of tax policy and tax expenditures
Monetary and Capital Markets	September 2006	Staff	Bank supervision and regulation
	September 2010	Staff	Needs assessment
Statistics	September 2001	Staff	ROSC assessment of data
	July 2002	AFRISTAT	Real sector statistics assessment under GDDS West Africa project
	August 2002	AFRISTAT	National accounts assistance under GDDS West Africa project.
	August 2002	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.
	December 2002	AFRISTAT	Continued assistance with national accounts and prices statistics under GDDS West Africa project
	February 2003	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.

Department	Date	Form	Purpose
	March 2006	Staff	Real sector statistics
	March 2006	Staff	Government finance statistics
	November 2008	Staff	SDDS assessment
	April 2009	Staff	Government finance statistics

XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Ms. Valeria Fichera since September 2009.

XV. Anti Money Laundering / Combating the Financing of Terrorism

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS Inter-Governmental Action Group Against Money Laundering (GIABA). The report was adopted in early May 2008 by the GIABA Plenary held in Accra, Ghana. The report highlighted several areas of weaknesses in the AML/CFT system, confirmed by the score of 12 Non-Compliant and 16 Partially Compliant ratings out of the 40+9 FAF AML/CFT recommendations. GIABA's first follow up report on the implementation of the recommendations contained in the Mutual Evaluation (2009) mentions that Senegal's adoption of Uniform Law No. 2009-16 of 02 March 2009 against terrorist financing enables the country to broadly comply with all the Recommendations and special recommendations concerning the issue, including customer Due Diligence (especially as regards politically exposed persons (PEP)). It also notes that legal provisions made by Senegal in order to prevent the abuse of new technologies, namely the adoption of Law No. 2008-11 of 25 January 2008 on cyber criminality, enable the country to adapt its criminal system and subsequent procedures to crimes related to new information and communication technologies. GIABA Secretariat concludes that Senegal deserves encouragement for its endeavour to reinforce its AML/CFT scheme and recommends, at this juncture, the maintenance of Senegal within a regular follow-up process, pending the results of measures taken and the adoption of new measures aimed at amending the above-mentioned scheme.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION
World Bank and International Monetary Fund Collaboration

(Update)

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
World Bank	Public Expenditure Review	Continuous	
International Monetary Fund	IMF-supported program First Review of PSI	March 2011	May 2011 (Board)
	Technical Assistance Revenue administration Tax policy review Public fin. management Treasury management Budget management Tax administration	October 2010 November 2010 January 2011 January / March 2011 January 2011 March / April 2011	
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Updates on progress with PRSC (if implications for the IMF-supported program) Energy sector reform
Bank request to Fund (with summary justification)
C. Agreement on joint products and missions			
Joint products	DSA	September 2011	November 2011

STATISTICAL ISSUES

Senegal – Statistical Issues Appendix

As of November 10, 2010

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial and social indicators, partially relying on technical assistance from the Fund and other international organizations and donors.

National accounts: The compilation of the national accounts generally follows the *System of National Accounts, 1993*. Despite staff's professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Owing to financial constraints, surveys of business and households are not conducted regularly. However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. The Regional Technical Assistance Center for West Africa (West AFRITAC) has been assisting member countries, including Senegal, with the improvement of their real sector statistics, in particular annual and quarterly national accounts (QNA). Progress reported by the advisor includes: i) completion of national accounts for 1980–2004 with 1999 as the base year; ii) dissemination of the 1980–2003 series in hard copy and on the internet; iii) production of accounts by institutional sector (first series covers 2004 institutional sector accounts); and iv) production of national accounts in accordance with the dissemination schedule. The authorities plan to start production of quarterly national accounts in view of the country's intention to subscribe to the SDDS. The recent West AFRITAC missions have assisted with training to support compilation of the QNA and initiating their compilation for the period 1990–2007. The West AFRITAC and the authorities agreed on a detailed work program initially aimed at starting regular dissemination of the QNA in March 2010. A stock-taking mission took place in April 2010.

Government finance statistics (GFS): GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources. Data last reported to STA for electronic redissemination and publication in the 2007 *Government Finance Statistics Yearbook* were for fiscal year 2001. Higher frequency data are not provided for redissemination in *IFS*, but the ministry compiles and disseminates quarterly government financial operations tables (TOFE) in their own publications. An AFR team worked with the authorities in February 2004 to improve fiscal reporting in the context of the last PRGF-supported program. The team focused on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The proposed changes are now being implemented. They have improved the presentation of government financial operations and are the first step toward bringing the TOFE more in line with the extended WAEMU TOFE. Other steps will include implementing the WAEMU fiscal directives that are being revised. A regional advisor in GFS has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodologies of the *Government Finance Statistics Manual 2001*. The regional advisor also supported efforts to resume reporting of annual and higher frequency data for publication in *International Financial Statistics (IFS)* and electronic dissemination of the *GFS Yearbook*.

Monetary and financial statistics: Preliminary monetary data are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released (including to the IMF) by BCEAO headquarters. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to about three to four months. There has also been an improvement in the timeliness of reporting interest rate and main depository corporation data (central bank, commercial banks and postal checks center). An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients (“coefficients de tri”), has been applied retroactively from December 2003. In August 2006, as part of the authorities’ continuing efforts to implement the statistical methodology recommended in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA test monetary data for June 2006 for all member countries using the Standardized Report Forms (SRF). In response to STA’s comments, the BCEAO has provided a revised central bank report form (1SR) as well as test data on other depository corporations (2SR) for review by STA.

External sector statistics: Balance of payments statistics are compiled by the Senegalese national agency of the BCEAO. With STA support over the past few years, several steps have been taken to address certain shortcomings, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modification and simplification of related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of staff training. Nevertheless, further steps could be taken to enhance the quality and coverage of the balance of payments statistics. Although definitive balance of payments statistics can now be provided with a delay of less than one year, there are significant delays in reporting the data to STA.

II. Data Standards and Quality

The country has begun the process of regional harmonization of statistical methodologies within the framework of the WAEMU. It participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund’s Dissemination Standards Bulletin Board on September 10, 2001. In September 2006, the authorities expressed their commitment to work toward subscription to the Special Data Dissemination Standard (SDDS) and have appointed a national SDDS coordinator. The November 2008 SDDS assessment mission evaluated dissemination practices against SDDS requirements for coverage, periodicity and timeliness and, in cooperation with the authorities, developed an action plan to address identified gaps.

A Data ROSC was published on the IMF website on December 2, 2002.

Senegal: Table of Common Indicators Required for Surveillance

(As of October 15, 2010)

	Latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality Accuracy and reliability ⁹
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	8/2010	10/2010	M	M	M		
Reserve/Base Money	7/2010	10/2010	M	M	M	LO, LO, O, O	LO, O, O, LO
Broad Money	7/2010	10/2010	M	M	M		
Central Bank Balance Sheet	8/2010	10/2010	M	M	M		
Consolidated Balance Sheet of the Banking System	6/2009	9/2010	M	M	M		
Interest Rates ²	8/2010	10/2010	M	M	M		
Consumer Price Index	9/2010	10/2010	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA				O, LNO, LO, O	LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	8/2010	9/2010	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ^{5/11}	2009	9/2010					
External Current Account Balance ^{10/11}	2009	9/2010	A	A	A	O, O, O, O	O, O, O, O
Exports and Imports of Goods and Services ^{10/11}	2009	9/2010	A	A	A		
GDP/GNP ^{10/11}	2009	9/2010	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt ¹¹	2009	9/2010	A	I	A		
International Investment Position ^{6/}	2008	4/2010	A	A	A		

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁸ Reflects the assessment provided in the data ROSC published in November 2002 and based on the findings of the mission that took place in September 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).

⁹ Same as footnote 8, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, and revision studies.

¹⁰ Estimate.

¹¹ Reported to staff during mission.