



Executive Board Minutes 21/56-3

June 7, 2021–11:00 a.m.

Senegal—Third Review Under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, and Requests for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility

Documents: EBS/21/44, and Sup. 1; EBS/21/48, and Cor. 1, and Sup. 1

Staff: Delechat, AFR; Steinberg, SPR

Length: 41 minutes

ISSUED: October 20, 2022

APPROVAL: October 27, 2022

CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR’S SUMMING UP

Executive Directors commended the authorities for the forceful response to the pandemic and the reform progress under the Policy Coordination Instrument. While noting that medium-term prospects remain promising, they emphasized the near-term macroeconomic challenges and risks for Senegal from the protracted pandemic, higher commodity prices, and social unrest. Directors agreed that the authorities’ reform agenda, supported by the Policy Coordination Instrument, remains appropriate, and will be further reinforced by the new Fund arrangements, setting the foundations for strong, inclusive, and sustainable growth.

Directors noted that revenue-based fiscal consolidation, which will require the authorities’ full commitment to their medium-term revenue strategy, is essential to bring the fiscal deficit back to the WAEMU norm of 3 percent of GDP by 2023. They emphasized that enhanced public debt management would help maintain debt sustainability, along with fiscal consolidation, and encouraged the authorities to closely monitor debt sustainability risks and prioritize concessional borrowing. Directors welcomed the efforts to address youth unemployment, but noted that new recurrent spending commitments associated with the emergency youth employment program should be carefully monitored to avoid compromising the fiscal consolidation efforts.

Directors encouraged the authorities to accelerate reforms to improve public financial management. They welcomed the publication of quarterly budget execution reports detailing the use of COVID-19 resources and the report by the committee in charge of monitoring COVID-19 spending as important steps to ensure the transparency and accountability of pandemic-related spending. They also looked forward to the finalization of the legal framework to manage hydrocarbon revenues in line with best international practices.

Directors welcomed the sustained financial stability, reflected in the resilient banking system, but noted the existing pockets of vulnerabilities, including from elevated NPLs, and called for close monitoring of the banking system. They also encouraged the authorities to swiftly implement action plan to address strategic AML/CFT weaknesses.

Directors welcomed the authorities’ strong focus on tackling youth unemployment. They emphasized that lasting progress will require improved efficiency of existing public initiatives and a business environment conducive to private sector-led job creation. In this context, they highlighted the importance of tackling long-standing constraints to higher private investment.

EXECUTIVE BOARD DECISIONS

The Executive Board took the following decisions:

Senegal—Third Review Under the Policy Coordination Instrument and Request for Modification of Quantitative Targets

1. Pursuant to paragraph 7 of Decision No. 16230-(17/62), adopted July 14, 2017, and paragraph 1 of the Policy Coordination Instrument for Senegal (“PCI”) EBS/19/125, the Fund has conducted a review to assess program implementation.
2. The Program Statement dated May 20, 2021 (the “May 2021 Program Statement”) and its attached Technical Memorandum of Understanding (the “May 2021 TMU”) shall be attached to the PCI, and the Program Statement dated December 18, 2019, together with all of its attachments, shall be read as supplemented and modified by the May 2021 Program Statement and its attachment.
3. Accordingly, the continuous targets, the end-June 2021, the end-December 2021 and end-June 2022 quantitative targets and the reform targets under the PCI shall be as specified in Tables 1a and 1b and Table 2 attached to the May 2021 Program Statement and as further specified in the May 2021 TMU.
4. The Fund completes the third review specified in paragraph 1 of the PCI on the condition that the information provided by Senegal on its performance under the Quantitative Targets and Continuous Targets related to this review is accurate. (EBS/21/48, 06/01/21)

Decision No. 17050-(21/56), adopted
June 7, 2021

Senegal—Request for a Stand-By Arrangement

1. Senegal has requested a Stand-By Arrangement in an amount equivalent to SDR 302 million for a period of eighteen (18) months from the effective date of this decision.
2. The Fund approves the Stand-By Arrangement for Senegal set forth in EBS/21/44 and decides that purchases may be made under the arrangement.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

4. This Decision shall become effective only upon the adoption of Decision No. 17052 below by the Executive Board. (EBS/21/48, 06/01/21)

Decision No. 17051-(21/56), adopted
June 7, 2021

Senegal—Request for an Arrangement Under the Standby Credit Facility

1. Senegal has requested an arrangement under the Standby Credit Facility (SCF) for a period of eighteen (18) months in an amount equivalent to SDR 151 million.

2. The Fund approves the SCF arrangement for Senegal set forth in EBS/21/44 and decides that Senegal may request the first disbursement under the arrangement. (EBS/21/48, 06/01/21)

Decision No. 17052-(21/56), adopted
June 7, 2021

EXECUTIVE BOARD ATTENDANCE²

M. Furusawa, Acting Chair

Executive Directors

A. Andrianarivelo (AF)

L. Levonian (CO)

A. Buisse (FF)

R. von Kleist (GR)

D. Fanizza (IT)

M. Mouminah (SA)

R. Lim (ST)

Alternate Executive Directors

O. Odonye (AE)

B. Lischinsky (AG), Temporary

A. Grant (AP)

R. Velloso (BR), Temporary

Z. Zhang (CC)

A. Arevalo Arroyo (CE), Temporary

C. Just (EC)

N. Thiruvankadam (IN), Temporary

M. Kashima (JA)

M. El Qorchi (MD)

W. Abdelati (MI), Temporary

D. Tevdovski (NE), Temporary

J. Sigurgeirsson (NO)

L. Palei (RU)

V. Djokovic (SZ), Temporary

D. Ronicle (UK)

L. Sturm (US), Temporary

H. Al-Atrash, Acting Secretary

V. Sola, Summing Up Officer

L. Briamonte, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

Also Present

African Department: C. Delechat, A. Fedelino, M. Koulet-Vickot, S. Rosa, A. Selassie, S. Singh, D. Stenzel. Communications Department: F. Mboto Fouda. Fiscal Affairs Department: N. Hamliri. Finance Department: P. de Imus. Legal Department: C. Acosta,

² For countries in each constituency, please see the Constituency Codes in the annex.

A. Aly. Research Department: K. Smuts. Strategy, Policy, and Review Department: D. Hart, C. Steinberg. World Bank Group: E. Sergenti, T. Thomas. Executive Directors: S. Bhalla (IN), I. Mannathoko (AE), M. Mahmoud (MI), P. Moreno (CE), E. Shortino (US). Alternate Executive Directors: A. Alhosani (MI), H. Azal (EC), A. Guerra (CE), F. Mochtar (ST), R. N'Sonde (AF), F. O'Brolchain (CO), V. Rashkovan (NE), J. Romero (CE), P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), A. Ekelund (NO), J. Garang (AE), M. Maidi (AE), L. Marek (EC), T. Nguema-Affane (AF), L. Smith (CO), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), S. Belhaj (MD), J. Corvalan (AG), O. Diakite (AF), D. Fadhel (MI), Z. Huang (CC), A. Korinthios (IT), T. Krahne (GR), M. Merhi (MI), R. Moral Betere (CE), K. Osei-Yeboah (MD), B. Piasecki (SZ), F. Rawah (SA), D. Shestakov (RU), M. Shimada (JA), L. Siliva (AP), Min H. Soe (ST), E. Comolet (FF), A. Evangelou (UK).

DISCUSSION RECORD³

The Acting Chair (Mr. Furusawa):

We consider today Senegal's request for a new Stand-By Arrangement (SBA) and the arrangement under the Stand-By Credit Facility (SCF) combined with the third review under the Policy Coordination Instrument (PCI).

This is a welcome use of the PCI as the close engagement with Fund staff has facilitated rapid transition to an upper credit tranche program that can help meet Senegal's short-term balance of payments (BOP) needs. In the gray statements, Directors welcome the continued solid performance under the PCI, as well as the authorities' prompt response to the COVID-19 shock. However, the risks remain tilted to the downside, and Directors highlight the need to accelerate reforms to preserve macroeconomic stability and support inclusive growth. Notably, Directors note that temporary loosening of the fiscal stance is warranted to accommodate the COVID-19 vaccination campaign and the new program to support youth and women employment.

In the medium-term however, revenue-based consolidation, supported by the resolute implementation of the medium-term revenue mobilization strategy (MTRS), should drive a gradual return to a fiscal deficit to WAEMU anchor of 3 percent of GDP by 2023 in order to preserve debt sustainability. Ensuring greater spending efficiency and limiting new or recurrent spending commitments will also be important. To ensure a job-rich and inclusive recovery, priority should be given to boost private investment by improving the business environment and tackling longstanding constraints to job creation.

The staff representative from the African Department (Ms. Delechat):

I would like to start by thanking the authorities for their very close cooperation and Mr. Andrianarivelo's office for the close involvement. I thank Directors for their gray statements and for their questions, which we have addressed in writing. In my intervention, I would like to mainly provide an update on recent developments in Senegal, which are relevant to the program.

First, on budget execution, as indicated in our answers to technical questions, execution of the 2021 budget is proceeding well, and based on

³ Edited for clarity.

end-May data, the program's revised fiscal targets are within reach. The revised budget, approved on June 3 by Cabinet, is fully in line with the fiscal program outlined in the staff report and was submitted to Parliament today for approval before the end of June.

On the medium-term revenue mobilization strategy, or MTRS, the document was finalized in June 2020, but its implementation was delayed owing in part to the COVID-19 pandemic. It has now been approved by Cabinet on June 3. This paves the way for full its deployment, including nomination of the Strategic Oversight Committee and other actions expected by end-June 2021.

On the audit of the public debt database, staff has received the auditors' preliminary report on June 1 with the final report due at end-June. The report notes that public debt data quality is overall good but indicates some weaknesses, particularly regarding state-owned enterprise (SOE) debt data collection and their integration in the overall public debt database. Once the report is finalized, staff will work with the authorities on their plan to address the specific recommendations of the report. Other end-June structural benchmarks are well within reach as well.

On the report by the COVID-19 fund monitoring committee, the report has been finalized and validated by the President and sent to staff. The report is extremely detailed and comprehensive. It includes all transactions and lists all companies and government entities that have received COVID-related funds. All the bills, contracts, and other supporting documents will be made available for public consultation. There will be a public ceremony to disseminate the report in the coming days.

On the Eurobond, as we know, on June 2 the authorities successfully issued a 775-million-euro Eurobond with a maturity of 16 years and a coupon of 5.375 percent. The issuance was heavily oversubscribed. The authorities have confirmed that the funds would be used exclusively for liability management purposes to buy back about 70 percent of the Eurobond maturing in 2024 and to pre-finance Senegal's participation in oil and gas projects, as staff had recommended. The Eurobond will improve Senegal's external debt profile by smoothing out the large peak in principal repayments for 2024 and by reducing foreign exchange risks as it replaces the dollar-denominated debt with euro denominated debt tied CFA franc at the fixed exchange rate.

I will briefly comment on a few issues raised in the gray statements. On the energy sector, staff intends to continue its close dialogue with the

authorities, highlighting the high cost and risks for the budget stemming from the current policy of fixing domestic fuel products prices. Staff will propose options for introducing gradual or partial flexibility into domestic fuel price structure.

Regarding electricity, ongoing reforms as part of Senegal's power compact with the Millennium Challenge Account (MCA) and implementation of the gas to power strategy have the potential to be truly transformative for Senegal by substantially expanding access to cleaner and cheaper electricity.

On the youth employment program and private sector-led growth, as noted earlier by the Chair and by a few Directors, the additional spending on youth and women employment will be effective only if it supports the creation of permanent private sector jobs. Staff therefore has made recommendations to make the program fully effective and to accelerate the reforms aimed at addressing longstanding obstacles to private sector job creations, including labor laws, access to land and credit, and enhancing the quality of education and vocational training.

Finally, on program design and the SDR allocation, some Directors asked about the rationale for concurrent use of the PCI with the SCF and the SBA. The reason is that the authorities appreciate the strong signal from the PCI, which has been executing well. They did not want to cancel it, as its objectives remain relevant, and they wanted to preserve the continuity of the signal.

On financing, I can say that the Fund program is having a very significant catalytic effect. All Senegal's traditional budget support donors are providing additional resources, either on highly concessional terms or as grants, through the program.

Finally, on the SDR allocation, the allocation for Senegal will amount to 309.6 million SDRs, or 1.6 percent of GDP. Discussions on the anticipated SDR allocation are very preliminary because staff has followed the guidance from the institution not to include the allocation in the baseline scenario before it becomes effective. For Senegal, the SDRs will be held at the regional central bank, the BCEAO; so a model where the BCEAO on lends an equivalent amount in CFA francs to the authorities, as was done for the previous SDR allocation in 2009, could be considered. However, the specific modalities for on lending will have to be discussed between all WAEMU member countries and the BCEAO in the coming months.

In terms of the use of the additional resources, the scope for additional spending is limited given the authorities' commitment to meet the regional fiscal deficit target of 3 percent of GDP by 2023. Staff's recommendations will emphasize using the additional funds to strengthen the fiscal and debt positions, for instance, by clearing outstanding unpaid obligations.

Mr. von Kleist:

We issued a quite comprehensive gray statement in which we support the completion of the third review under the PCI, as well as the request for new arrangement under the SBA/SCF. Let me be brief and emphasize two points.

First, we acknowledge the authorities' intent to preserve continuity building on Senegal's longstanding excellent relations with the Fund. The requested arrangement could serve as a valuable anchor to press ahead with an ambitious reform agenda. We thus encourage the authorities to decisively tackle the identified challenges in the fiscal and structural areas to support inclusive and private sector-led growth, maintain debt sustainability, and ensure Senegal's capacity to repay.

Second, and on a similar note, we look forward to accelerated reforms to improve public financial management, as well as to the upcoming reports on the execution of COVID-19-related spending. On both points, I welcome staff's answers and additional comments just now.

Ms. Kashima:

We issued a detailed joint gray statement, which supported the SBA and SCF request, as well as the completion of the PCI's third review. Let me provide the following additional comments.

We are of the view that Senegal would be a good example, or potentially a role model, from two perspectives from which we can learn some useful lessons for other countries. One is the strategic integration of the Fund's program and capacity development. As we mentioned in the joint gray statement, it is essential for Senegal to develop a robust fiscal framework to deal with the increased public debt, as well as the ongoing hydrocarbon project.

As Mr. Lischinsky and Mr. Guerra also mentioned in their gray statements, we welcome that the necessary reforms in these areas are

incorporated into the program as conditionalities and that the necessary capacity development is being provided by the Fund to achieve such conditionalities.

The second point is, echoing Ms. Shortino's comments in her gray statement, the effective use of non-lending programs, namely PCI in the case of Senegal. The existing PCI and satisfactory track records under the PCI have enabled the Fund to promptly provide emergency financing and now financing under the SBA and SCF to meet the short-term balance of payments needs. Also, the continuation of the PCI would send a positive signal to the market and development partners regarding the authorities' sustained commitment to the reforms. We expect staff and the authorities to continue effective external communication on this front to maximize the positive signaling effect. I will stop here.

Mr. Buisse:

I published a gray statement with Mr. Ronicle, I would like to underscore three points.

First, the commitment of Senegal to the PCI has been important in the current environment. It is a robust foundation on which to provide Fund financing to address balance of payments needs through an SBA/SCF to address balance of payments needs and the triple shocks that the country is facing. We, therefore, strongly support the completion of this PCI review and the request for a new arrangement. I am glad to see that performance has been satisfactory, and I believe this engagement with the Fund is proving itself to be very helpful and allows to build on the good ownership by the authorities.

Second, regarding the fiscal account, let me thank staff for the answers to our questions. For a lot of vulnerable countries in the world, finding the right balance between accommodating new spending needs and maintaining sound fiscal policy is one of the most difficult questions. The ambitious medium-term revenue strategy and the resumption of efforts to strengthen public financial management (PFM) will be critical for Senegal, given needs such as the vaccine rollout and health expenditures, as well as security risks. As the Summit on the Financing of African Economies stated, there will need to be some flexibility as appropriate. This goes hand-in-hand with adequate reforms at the national level. Overall, it is important for staff to continue to work on these issues, including in the context of regional limits.

Finally, on debt, we welcome the fact that the program targets a total nominal public debt in CFA franc, which incorporates all domestic and external debt. We think this is particularly useful and could be replicated for other WAEMU programs, as it is coherent with the reforms to develop domestic financial markets and domestic debt.

Mr. Velloso:

We issued a comprehensive gray statement supporting the completion of the third PCI review and financial program requests. Therefore, I will make only three points for emphasis.

Let me first commend the Senegalese authorities for their proactive policy actions to alleviate the economic, social, and health effects of the COVID-19 pandemic. Their actions, no doubt, contributed to better-than-expected growth last year. Despite this positive outcome, Senegal still faces many challenges, and further actions are needed, including related to mass vaccination, to help ensure a strong and sustainable recovery.

Second, we strongly encourage the authorities to accelerate the adoption of the medium-term revenue strategy implementation plan and enhance the monitoring committee's effectiveness. Domestic revenue mobilization is critical to creating additional fiscal space for high priority spending and achieving by 2023 the regional fiscal deficit target of 3 percent of GDP.

Finally, we welcome the authorities' financial inclusion strategy and their efforts to address the pandemic's impact on the most vulnerable through additional cash transfers and subsidies. These measures, combined with forthcoming structural reforms and stronger participation by the private sector, should be conducive to stronger and more inclusive growth going forward.

Ms. Lim:

We have issued a joint gray statement. I would just like to offer two brief points for emphasis.

First, we would like to emphasize the vital role of social cohesion in improving political stability and expediting economic recovery in Senegal. In this regard, we commend the authorities' commitment to strengthen social safety nets, improve youth employment, and enhance financial inclusion. We also note positively from Mr. Andrianarivelo's buff statement, the authorities'

plans to strengthen efficiency and coordination of state interventions for women, young people, and small and medium-sized enterprises (SMEs) in need, and look forward to the corresponding creation of private sector jobs.

Second, we take positive note of the authorities' arrangement to adopt a law on the management and distribution of revenues from hydrocarbon resources by the end of June 2021. We are particularly encouraged that this law was drafted leveraging the Fund's technical assistance. We call for authorities to persevere in implementing a strong fiscal framework to safeguard debt sustainability while providing space for new spending models.

Mr. Just:

In addition to our gray statement, I would like to make three points.

First, we welcome Senegal's satisfactory performance under the PCI-supported program. Like Ms. Shortino and Ms. Kashima just now, we would see greater scope for using the PCI as an instrument for close engagement between the Fund and the authorities to facilitate a transition to UCT-quality programs when needed.

On governance commitments, we welcome the progress made on ensuring a transparent use of the Fonds Force COVID-19 resources, including the planned publication of the report on spending and procurement undertaken with the fund's resources. We encourage the authorities to finalize the annual audit of procurement procedures related to COVID-19 spending as a matter of priority.

We read with interest staff's answers to Mr. von Kleist's question on climate transition risks for Senegal's hydrocarbon sector. Quite frankly, we were a bit surprised that the staff report does not seem to factor in possible transition risks that could reduce prospective revenue streams, or in the extreme, could turn Senegal's hydrocarbon investments into stranded assets. Staff's answer was very helpful in that respect. We think we need an Institutional View (IV) on how, for example, transition risks or transition to net zero will impact the demand for hydrocarbon products and could affect the economic prospects of countries like Senegal.

Mr. Odonye:

We issued a detailed statement noting that the COVID-19 pandemic severely hit Senegal, and the authorities' swift containment measures helped mitigate the impact on households and firms. Nonetheless, the risks to the

outlook, including the virus's uncertain path, continues to cloud the environment for macroeconomic stability and inclusive growth. In this respect, we would provide the following comments for further elaboration.

One, appropriate sequencing would remain crucial to Senegal's macroeconomic stability and inclusive growth. As the authorities implement new priorities, we stress the need to find balance between preserving fiscal and debt sustainability, a point well elaborated by several Directors, among them Mr. Buisse, Mr. Ronicle, and Mr. Guerra. We look forward to improved medium-term revenue performance underpinned by the authorities' medium-term debt strategy and PFM reforms.

Two, we commend the authorities' response to preserve financial stability. Given the elevated risks and prospects to slow recovery, we encourage the authorities' close monitoring of non-performing loans (NPLs) especially in the small banks and microfinance sector. We also encourage perseverance to address the AML/CFT deficiencies outlined in the Financial Action Task Force (FATF) action plan on or before September 2022.

Finally, we emphasize the importance of steadfast implementation of structural reforms towards inclusive and private sector-led growth. Support to women and youth needs to be entrenched including by intensifying the labor reforms and governance. Likewise, the authorities need to accelerate the actions to finalize the fiscal and governance structure of the hydrocarbon sector to enhance the business environment.

Mr. Zhang:

I would like to highlight the following three points.

First, we commend the Senegal authorities' strong economic policy in response to the COVID crisis. As the uncertainty remains high and risks are tilted to the downside, we support the completion of the third PCI review and the request by the authorities for the new arrangements of SBA and SCF.

Second, we commend the authorities' efforts to enhancing public financial management, including the new issuance of no-interest Eurobond to replace high-cost Eurobond issued in the past.

Third, we understand that there will be no changes to the energy subsidies at this stage, but in the future when conditions allow, the authorities could start the reform of the energy subsidy regime.

Mr. Mouminah:

We issued a gray statement in which we supported the completion of the third review under the PCI and the authorities' request for the Fund arrangement under the SCF and SBA. We commend the authorities for the swift response to fight the COVID-19 crisis. We positively note that the PCI performance continued to be satisfactory, signaling the authorities' commitment to advancing the much-needed structural reforms.

We emphasize that the Fund support, in our view, is critical given the COVID-19 situation here and, especially, to address the short-term financing needs and to enforce the authorities' crisis response. We look forward to its catalytic role towards attracting additional external support. I would emphasize three points.

On the fiscal front, we appreciate the authorities' focus to addressing the immediate crisis-related priorities, including through supporting the vaccine campaign, as envisaged under the revised fiscal strategy. Like other Directors, we support the authorities' commitment to fiscal adjustment going forward with a view of bringing the fiscal deficit back to WAEMU targets. This would be important to safeguard debt sustainability and help rebuild fiscal buffers.

On energy-related issues, we encourage ensuring proper budgeting on energy subsidies accompanied by energy sector reforms to help strengthen the sector's financial viability, a point already made by many other Directors.

Finally, the authorities made notable strides towards advancing the reforms agenda. In this connection, we encourage the authorities to step up the implementation of structural reforms going forward with a view of fostering job opportunities and achieving durable and more inclusive growth.

Mr. El Qorchi:

We have issued a gray statement in which we supported the completion of the third review under the Policy Coordination Instrument, modification of quantitative targets, and the proposed arrangement under the Stand-By Credit Facility and Stand-By Arrangement. I would like to highlight a couple of points.

First, while the authorities' commitment to a 3 percent fiscal deficit on the medium-term is commendable, I agree with Mr. Buisse and other

Directors that some flexibility could have been considered in the program given the exceptional nature of the pandemic and the high level of uncertainty. When we say it is a crisis like no other, it has to have a meaning. I just wonder what it would take and how much bigger this crisis should be for the Fund to show more flexibility in Fund programs.

Second, Senegal could serve as an excellent case study for many low-income countries and medium-income countries in Africa and elsewhere, especially on highly topical issues such as the informal economy, inclusion, and climate change. We, therefore, encourage more granular analysis and policy advice in these areas in order to anticipate the consequences of major global trends and better inform policy directions.

The staff representative from the African Department (Ms. Delechat):

I do not have much to add at this point. I take note of Directors' excellent points and suggestions.

On Mr. El Qorchi's remarks, I just want to highlight that we will be conducting the Article IV consultation in the Fall, going to the Board by December, and in the context of the Article IV, we take note of the suggestions to provide more details and further analysis to some of the questions raised, including the energy sector issues, climate change, and the sources of inclusive private sector-led growth. In that context, tackling Senegal's very high informality will be necessary.

Mr. Andrianarivelo:

I thank Directors for their support to the completion of the third review of PCI and approval under SCF and the SBA. Directors have shared valuable insight about Senegal's policy and reform agenda, which I will faithfully convey to my authorities. Let me also thank Ms. Delechat and her team for the open-minded and constructive policy dialogue they have maintained with Senegalese authorities. The new SBA/SCF arrangement would catalyze additional donor support and help my authorities navigate through these difficult times. As recognized by many Directors, my authorities' policy response to the COVID-19 pandemic has been strong.

However, the second wave of contamination and rising commodity prices globally have made the macroeconomic environment much more difficult. My authorities remain committed to return to the trajectory of solid growth, and those new arrangements will be instrumental in this regard.

The continued support of the international community will be needed, including to realize their vaccine production potential, which will help to address the consequences of the health and economic crisis that the pandemic has caused. In this regard, they welcome the Paris Summit on the Financing of African economies last May and wish to thank the host country and the Fund's leadership with Managing Director.

I would like also to make a few comments on a few issues raised by Directors. In the fiscal area, I would like to reassure Directors that my authorities remain fully committed to step up their efforts to boost domestic revenue by implementing the medium-term revenue strategy. On AML/CFT, Senegal has made it a priority to be removed from the enhanced oversight by the Financial Action Task Force. My authorities are committed to address strategic deficiencies of framework through the implementation of a robust action plan broken down into 29 case measures.

Regarding structural reforms, my authorities will continue to implement measures to promote greater private-sector development and reinforce its contribution in achieving the objectives of Plan Senegal Emergent (PSE). In this respect, my authorities agree that more needs to be done notwithstanding the progress made to date. Our private-sector development strategy will remain focused on removing the wide range of constraints in the business environment, including access to lending and credit, facilitating access to affordable, reliable energy.

My authorities also foresee strong private sector-led job creation, notably for women and young people, as stressed by many Directors. In this regard, they are keen to find innovative ways to finance youth and entrepreneurship, support small and micro enterprises, and boost jobs in the private sectors.

To conclude, let me reiterate that our authorities remain fully committed to achieving the objectives of the PCI-supported program and that they look forward to the Fund's continued support.

The Acting Chair (Mr. Furusawa) adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

BUFF/ED/21/67

June 2, 2021

**Statement by Mr. Andrianarivelo and Mr. Diakite on Senegal
Executive Board Meeting
June 7, 2021**

I. Introduction

1. On behalf of our Senegalese authorities, we thank the Executive Board, Management, and staff for their continued support to Senegal's efforts to successfully implement their economic program supported by the Policy Coordination Instrument (PCI). They value the constructive policy dialogue held with staff in the context of the third PCI review and their request for a new financing program under the Stand-By Arrangement (SBA) and the Stand-By Credit Facility (SCF).
2. The macroeconomic environment in Senegal has become more difficult than expected since the completion of the second PCI review in January 2021 due notably to the second Covid-19 wave of contamination and rising commodity prices. While the policy response to the crisis has been strong under the *Programme de resilience économique et sociale* (PRES), these developments are putting additional pressures on fiscal and external accounts, increasing financing needs, and affecting the most vulnerable households and especially unemployed young people.
3. The authorities remain committed to the objectives of the PCI-supported program and have readjusted their near-term priorities to focus on containing the transmission of the virus by accelerating the vaccination campaign, meeting the aspirations of young people, and boosting economic recovery. In order to cope with the new fiscal and balance of payments needs, they are requesting an 18-month financing program under the SCF and the SBA with access equivalent to 140 percent of quota.

II. Economic developments in 2020 and outlook

4. The Covid-19 pandemic has severely impacted the Senegalese economy in 2020. Real GDP growth is estimated to have dropped to 1.5 percent compared to 4.4 percent in 2019. Tourism, hotel, catering, and transport services have been hit the hardest with negative consequences on employment and incomes, including in the informal sector in urban areas. However, the good performance in the agricultural sector made it possible to avoid an economic contraction. While inflation accelerated to 2.5 percent following supply

disruptions related to the pandemic, it remained below the WAEMU regional norm of 3 percent.

5. The fiscal situation deteriorated in 2020 compared to pre-pandemic projections. Revenues fell due notably to the lower economic activity, while spending increased to fight the pandemic and mitigate its fallout on vulnerable segments of the population. As a result, the budget deficit worsened to 6.4 percent of GDP. Public debt also increased, with a ratio estimated at around 69 percent of GDP at end 2020. Thanks to Senegal's participation to the G-20 Debt Service Suspension Initiative, a significant share of the debt service payments was deferred.
6. Regarding the external sector, the current account deficit worsened to more than 10 percent of GDP, against 8 percent of GDP in 2019, owing notably to the marked decline of the tourism sector. However, remittances remained resilient and increased by 1 percent year-on-year at end-December 2020.
7. The banking sector has also shown resilience in the face of the pandemic. Banks entered the crisis with comfortable levels of equity and liquidity which, together with the accommodating monetary policy of the central bank (BCEAO), made it possible to maintain a high level of credit flows to the government and the private sector.
8. The authorities concur that the outlook is highly uncertain and risks remain on the downside. The medium-term growth forecasts have been revised downwards given that the pandemic will be more difficult to control than initially expected, both in Senegal and among its main trading partners. A deterioration in the terms of trade is also assumed due to rising commodity prices. These factors would lead to a slower than expected normalization of activity in the tourism sector, and weigh on household incomes and undermine business confidence. However, on the upside, an effective implementation of the government's recovery plan, and the potential SDR allocation could improve the outlook and ease financing pressures. Likewise, since Senegal has expertise in vaccines manufacturing through its *Pasteur institute of Dakar*, a reinforcement of the production capacity of this institute by the international community would contribute greatly to the fight against the pandemic domestically, and to the current global efforts to vaccinate Africa.

III. Performance under the PCI-supported program

9. Despite the difficult circumstances, the performance under the PCI-supported program has been broadly satisfactory. All the quantitative targets at end-December 2020 were met, with the exception of the one related to the share of single sourced procurement contracts due to emergency expenditures in the context of the pandemic. However, since September 2020, all government procurement has been done in compliance with *le Code des marchés publics*. Regarding structural reforms, six reform targets out of nine were met, and progress is being made to implement the remaining ones.

10. The authorities will continue to fulfill their commitments in terms of transparency and accountability for Covid-19 spending. In this regard, they have already produced and published all quarterly budget execution reports that include financial data on the execution of the PRES, as well as all food aid, particularly with regard to targeting beneficiaries, contracting with suppliers and distribution to households. The report of the monitoring committee responsible for the implementation of the operations of the “Force-Covid-19” fund is expected to be published in June 2021. As part of the annual audit of public procurement, the regularity of procurement procedures relating to Covid-19 spending will be assessed by the public procurement regulation authority and its report will be available by the end of June 2021. The specific Court of Auditors report on pandemic-related spending, as part of its 2020 finance law execution report, will be available by the end of October 2021.

IV. Economic and financial program 2021-2022

11. The new SBA/SCF-supported program will be implemented concurrently and based on the three pillars of the PCI program namely: (i) the effective fight against the pandemic while maintaining macroeconomic stability, including through the increase in tax revenues; (ii) the promotion of strong, sustainable and inclusive growth driven by the private sector and support for youth employment, and (iii) the preparation of a framework for the sustainable and transparent management of the hydrocarbons sector.

Address the dual health and economic crisis while maintaining macroeconomic stability

12. The authorities’ fiscal policy as reflected in the revised 2021 budget is focused on addressing the health emergency and supporting economic recovery, while remaining committed to returning to the WAEMU fiscal deficit norm of 3 percent of GDP in 2023. To this end, they will increase their efforts to enhance domestic revenue mobilization, and improve the efficiency of public spending to create space for substantially strengthening social safety nets and support youth employment.
13. On the revenue side, the revised 2021 budget aims to offset the forecasted revenue shortfalls by resolutely implement measures to broaden the tax base, in line with the priorities of the medium-term revenue strategy (*SRMT*). These tax policy and administration measures include notably the recruitment of 150,000 new taxpayers, the enrollment of 80,000 taxpayers subject to payroll deductions, and enhanced cooperation between the tax and customs administrations to help improve revenue collection. On the spending side, expenditures would increase to finance the vaccination campaign and the emergency program for the employment and socio-economic integration of young people. Additional budget appropriations for the Energy Support Fund (ESF) are also envisaged given the upward revisions in the forecasts of oil prices.
14. The budget deficit would increase to 5.4 percent of GDP and will be financed by drawing on project loans, program loans and other net borrowings. Also, the authorities will continue their efforts to achieve budgetary savings by freezing certain operating costs, postponing new projects, and participate in the debt service suspension of the G-20.

Given the persistent uncertainties concerning the evolution of the pandemic and the costs of the vaccination campaign, the amount of the precautionary reserve is expected to be maintained.

15. The authorities will pursue the implementation of far-reaching medium-term structural public finance reforms. They will ensure full ownership of the SRMT by revenue administrations in order to achieve the tax to GDP target of 20 percent in 2023. They will also continue to implement program budgeting, improve reporting of transfers through treasury deposit accounts (*comptes de dépôt*), and restructure the post-office. Efforts will continue to improve cash management by consolidating further the Treasury Single Account (TSA). In order to strengthen the management of fiscal risks, a database for the full range of PPPs will be set up, and a fiscal risk statement will be prepared to be annexed to the 2022 Budget Law.
16. To maintain debt sustainability, the authorities will continue to favor concessional and regional market financing. The use of non-concessional financing will be retained only to finance projects with high rates of return. The government will continue to engage with all official bilateral creditors to benefit fully from the G-20 Debt Service Suspension Initiative. This prudent debt policy will be accompanied by efforts to strengthen the operational capacity of the National Public Debt Committee (CNDP).

Achieve high and inclusive private sector-led growth

17. The authorities are concerned about speeding up job creation for young people. A series of initiatives have been launched in this area, including an important emergency program over a period of three years (2021-2023), with the support of the private sector and technical and financial partners of Senegal. The program is expected to reach about 500,000 beneficiaries, including through a national government-employer agreement, labor-intensive public investment projects, and apprenticeship-training. To strengthen efficiency and coordination of state interventions, the government will finalize a strategy to rationalize their support system including for women, young people, and SMEs. More generally, the social protection system will be strengthened and extended to new groups made vulnerable by the crisis.
18. Senegal continues to make good progress in improving the business climate. Major areas of reforms are underway, including the preparation of the private sector development strategy, the publication of the new PPP Law, and the reforms in the framework of the Business Environment and Competitiveness Reform Program and the Partnership to Encourage Reforms ("Compact with Africa").
19. The reforms of the electricity sector will also be pursued. These include strengthening the legal and institutional framework of the electricity sector under the "Power Compact" project, the finalization of a new electricity code to attract private investors, and a study on the tariff plan to ensure the financial viability of the sector.

20. In the financial sector, although the banking system has broadly weathered the pandemic crisis well, pockets of vulnerability exist, including the impact of loan repayment deferrals on the portfolio of some credit institutions, which have not yet been settled. The BCEAO and the Banking Commission are closely monitoring these vulnerabilities and a plan is being implemented with the goal of returning to normal during the first quarter of 2022. Also, the financial inclusion strategy to facilitate access to financial services is being finalized and aims to develop suitable financial products and digitization, protect users of financial services, and enable efficient regulatory and institutional frameworks.
21. The government is keen to ensure that Senegal is removed from the enhanced oversight by the Financial Action Task Force (FATF). In this regard, the AML/CFT framework is being enhanced to address strategic deficiencies. An action plan will be implemented with a focus notably on raising awareness and enhancing the technical capacities of AML/CFT stakeholders, strengthening the risk-based supervision approach for financial institutions by the Banking Commission, strengthening the sanctions regime in the event of violations of transparency obligations, and improving international cooperation.

Ensure the sustainable and transparent management of the hydrocarbons sector

22. Due to the pandemic and major shocks experienced by the oil industry worldwide, the start of oil production in Senegal has been pushed back from 2022 to 2023. In the meantime, the authorities are strengthening the legal and fiscal frameworks governing the distribution and management of oil and gas revenues, based on international best practices. In this regard, the draft Law on the management and distribution of revenues from the exploitation of hydrocarbons is expected to be adopted by the Council of Ministers by the end of June 2021. The major principles guiding the draft Law include the full budgeting of fiscal and non-fiscal hydrocarbon revenues, the creation of a stabilization fund to protect against volatility, and the creation of an intergenerational fund to invest in improving the living standard of the population.

V. Conclusion

23. The Senegalese authorities remain strongly committed to continue implementing policies and reforms aimed at preserving macroeconomic stability, achieving strong and inclusive economic growth, and improving public financial management and the business environment.
24. In view of the satisfactory performance under the PCI-supported program, and the need to meet new fiscal and balance of payments needs arising notably from the impact of the pandemic, the authorities seek Executive Directors' support for the completion of the third PCI review, modification of quantitative targets, and the approval of their requests for an 18-month Arrangement under the SCF and the SBA.

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GRAY/21/1467

June 3, 2021

**Statement by Mr. Odonye and Ms. Maidi on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for a well-written report and Mr. Andrianarivelo and Mr. Diakite for their insightful Buff statement.

The COVID-19 pandemic has placed a heavy toll on Senegal, decelerating growth to 1.5 percent in 2020 from 4.4 percent in 2019. The pandemic affected the tourism and export sectors, significantly retarding the outlook with negative implications for public debt, employment and social outcomes. The major fallout includes youth unemployment and widening inequality and social unrest, which the authorities responded with a number of containment measures to mitigate the impact on households and firms. The authorities continue their commitment to objectives of the Policy Coordination Instrument (PCI) anchored by the *Programme de resilience économique et sociale* (PRES). The program performance has been satisfactory on all the quantitative targets at end-December 2020, except one and structural reforms remain on course. However, the authorities' crisis response measures exerted additional pressures on fiscal and external accounts, increasing financing needs. Against this background, we support the completion of the third review under the PCI, the request for modification of related targets and the arrangement under the stand-by credit facility (SCF) and stand-by arrangement (SBA). We expect the good performance of the PCI alongside the SCF and SBA to catalyze additional concessional financing from external development partners to close the financing gap.

We welcome the commitment to prudent fiscal reforms and fiscal consolidation for a sustained macroeconomic stability and encourage perseverance of the authorities to preserve debt sustainability. The commitment to implement fiscal reforms is the right step and we urge the authorities to accelerate operationalization of the medium-term revenue strategy (MTRS) to optimize domestic revenue. An important component is the 2021 supplementary budget crafted to address the health and economic crisis in line with Senegal's PRES. While supporting the prioritization of vaccine rollout and need to address youth unemployment, like staff, we advise the authorities to watch out for potential risks emanating from implementing a new recurring spending. The delays in implementing the PFM reforms to help return

Senegal to the regional fiscal target weighs unfavorably on WAEMU. Consequently, we encourage the authorities to accelerate the clearance of pre-2019 unmet obligations and adoption of the PFM reforms, including implementation of the TSA to improve spending transparency and align with the WAEMU directive.

Relatedly, we agree that preserving debt sustainability remains crucial under the uncertain outlook and path of the pandemic. This is the context in which the authorities' commitment to debt sustainability can pivot debt management capacity of the National Public Debt Committee. The authorities' prioritization of concessional and regional financing is a step in the right direction. We look forward to updates on the adoption of the Medium-Term Debt Strategy by the national debt committee and the completion of the external audit of the public and SOE debts. With complementary fiscal space from the G20 Debt Service Suspension Initiative (DSSI), we urge the authorities to continue ensuring spending transparency and risk management.

We are encouraged by sustained financial stability, reflected in the resilient banking system during the pandemic. Nonetheless, heightened risks are lurking around from increasing NPLs and bank capitalization challenges occasioned by the uncertain outlook and slow recovery, including in the microfinance sector. These warrant close monitoring of banks to ensure financial stability with continued vigilance over reform of the state-owned banks. *We would appreciate more highlights on the fiscal costs associated with SOE reforms, which staff indicated to have increased due to the pandemic. Details of associated risks in the implementation of the fiscal consolidation are also welcome.*

Finally, continued structural reforms would be useful to promote an inclusive and private sector-led growth. We encourage the authorities to maintain their commitment to enhance labor reforms targeted at women, youth, and SMEs, including the Emergency Program for Youth Employment. Advancing structural reforms to boost private sector investment and improve business environment also holds the key. Additional focus on the finalization of the legal frameworks, including the hydrocarbon revenue, National Financial Inclusion Strategy, study of effectiveness of exemptions, SOE Strategy and PPP decree would make significant contributions. We note the staff assessment of the authorities' capacity to repay the Fund and look forward to continued commitment to ensuring transparency and governance for effective use of public resources as outlined in the relevant documents. We emphasize the need to timely publish the audit report.

With the above, we wish the Senegalese authorities success in their policy endeavors.

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GRAY/21/1470

June 3, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

1. We thank the staff for their detailed report and Mr. Andrianarivelo and Mr. Diakite for the informative buff. The macroeconomic condition of Senegal further weakened due to the second wave of COVID-19 pandemic. Despite serious economic difficulties, the authorities could meet all but one quantitative target under the Policy Coordination Instrument (PCI). To meet the short-term balance of payments needs arising because of the protracted effects of the pandemic and to support a broad-based recovery, the authorities have requested for fund financing under the Stand-By Arrangement (SBA) and Standby Credit Facility (SCF). We support the staff proposals including completion of PCI review and request for arrangements under SBA and SCF.
2. We are encouraged by the stronger than expected performance of the economy which grew at ½ percent in 2020 on the back of a solid agricultural sector performance. Non-agricultural sector suffered a moderate decline due to the impact of the pandemic on the service sector comprising tourism, travel, and transport. The prevailing uncertainty due to the second wave of the pandemic has dampened the prospects of a strong and an early economic recovery. Going forward, the launch of oil and gas production could give a temporary push to the growth.
3. After a sharp deterioration in 2020, the fiscal deficit is expected to gradually improve in the near-to-medium term. The revenues are expected to remain flat in 2021 though there is a potential upside if supportive tax policy and administrative measures are undertaken. There is a huge increase in spending pressures due to increased health spending, unemployment package for the youth and increase in energy subsidies due to rise in oil prices. There is a strong case for these supportive measures to alleviate the hardships caused due to the pandemic. We strongly support the ambitious campaign to vaccinate 60 percent of the population by the first quarter of 2022. In the context of balancing prudence and pragmatism, we welcome the revised medium-term fiscal strategy which aims to achieve a 3 percent fiscal deficit by 2023.

4. External sector is expected to deteriorate in the near-term due to slump in tourism, increase in import bills on oil and gas and sluggish external demand. However, the current account deficit which has been financed by significant foreign direct investment in hydrocarbon projects is expected to narrow down when the oil and gas exports begin. Importantly, remittances continued to grow at 1 percent in 2020 and a robust 5 percent in 2021. *Could the staff comment on the dynamics behind growth in remittances and the trend in remittances among comparable countries during the pandemic period?*
5. The financial sector is characterized by pockets of vulnerability and requires close monitoring by the authorities. Pending issues such as institutional reforms in the Poste finance, difficulties in the microfinance sector and restoration of capital of banks pose potential risks. On the upside, the banking system has remained resilient with a marginal decline in non-performing loans. Inflation has exhibited an upward tendency in both core as well as food inflation.
6. Public debt is estimated at 69 percent in 2020, 7 percent more than the pre-pandemic forecast. The debt sustainability analysis indicates moderate risk to external as well as overall debt. The report highlights that the debt profile has limited space to absorb shocks in near-term and is subject to significant risks. *Can the staff provide a comparative analysis of debt profiles in similar group of countries and comment on the relative position of Senegal in terms of risks to debt sustainability?*
7. We welcome the initiatives to accelerate reforms to improve the business environment and boost private sector investment. The proposed legal framework on hydrocarbon revenue sharing is an opportunity to incorporate elements like intergenerational savings and price shocks. We encourage the authorities to strengthen the AML/CFT framework in the context of increased monitoring by the Financial Action Task Force (FATF).
8. Finally, we wish the authorities success in their endeavors.

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GRAY/21/1474

June 3, 2021

**Statement by Mr. Palei and Mr. Shestakov on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the well-written paper and Mr. Andrianarivelo and Mr. Diakite for the concise Buff statement. We broadly agree with the thrust of staff's appraisal and would like to make the following comments for emphasis.

We support the completion of the third review under the Policy Coordination Instrument (PCI), modification of quantitative targets (QTs), and the proposed arrangement under the Stand-By Credit Facility and Stand-By Arrangement (SCF/SBA). Senegal's economic outlook has worsened due to the impact of the second wave of the COVID-19 pandemic, and the possibility of a third wave tilts the risks downside. The prolonged pandemic and high youth unemployment led to social discontent, which exacerbated the downturn in economic activity. A marked drop in the tourism sector and continued need for imports related to hydrocarbon projects widen current account deficit and create urgent balance of payments financing needs. The proposed short-term arrangement under the SCF/SBA combined with the new round of the DSSI would help to finance the residual financing gap.

We commend the authorities for the strong performance under the PCI and for timely measures to contain the COVID-19 outbreak and mitigate its consequences. According to the report, eight out of nine QTs and six out of nine reform targets were achieved, with other three reforms to be implemented with delay. The most notable delay is in implementation of the Medium-Term Revenue Strategy due to the pandemic. We support the authorities' intention to accelerate the implementation of the MTRS, with proposed reduction in tax exemptions and expanded tax base creating some fiscal space necessary to bring the public debt on a sustainable trajectory. These efforts should be supported by strengthening public financial management and SOE investment strategies review.

Strong ownership of the structural reform agenda would be needed to ensure inclusive recovery over the medium term. We support the authorities' plans to return to the WAEMU deficit anchor of 3 percent of GDP by 2023, which would bring the public debt below 60 percent in 2026. Given the prolonged impact of the pandemic and against the background of delayed revenue mobilization measures, the chosen pace of fiscal adjustment might be challenging. Therefore, we support the proposed youth employment program as a means to support the vulnerable population and fully utilize the economy's resources. *What are the projected gains from the youth employment program in terms of employment and output? Is there any strategy for turning a temporary program into more permanent employment gains through addressing structural bottlenecks of the country's labor market?*

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GRAY/21/1476

June 3, 2021

**Joint Statement by Ms. Levonian, Ms. Lim, Mr. Trabinski, Ms. Grant, Ms. Kashima, Ms. Smith, Mr. Djokovic, Mr. Shimada, Mr. Soe, and Mr. Tui Siliva on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for their informative set of papers, and Mr. Andrianarivelo and Mr. Diakite for their valuable Buff.

We support the completion of the third PCI review, modification of the quantitative targets and the request for 18-month arrangements under the SBA and SCF. Program performance under the PCI is satisfactory and the SBA conditionality appears well-balanced, building on the PCI reforms. The moderate combined access of 140 percent of quota under the blended arrangement will help cover short-term balance of payment needs, while catalyzing additional concessional financing. In addition, the continuation of the PCI will help buttress the authorities' developmental objectives, including on youth employment, and send a positive signal to the market and development partners about the authorities' sustained commitment to the reforms. We note that program risks are significant, and that Senegal's risk of debt distress has increased from low to moderate, but that the authorities' good track record in implementing Fund arrangements, adequate capacity to repay the Fund and adequate safeguard measures provide reasonable assurance. *Given the high degree of uncertainty and risk, have staff considered potential options for including additional flexibility within the program structure?*

Setting up a strong fiscal framework to maintain debt sustainability while providing space for new spending needs is rightly a key priority. The sharp rise in public debt in recent years calls for stronger policy frameworks and institutional rules. In that regard we welcome the ongoing progress on the Medium-Term Revenue Strategy (MTRS), as well as the convergence with the WAEMU fiscal targets and its PFM directives. The finalization of a legal framework to manage forthcoming hydrocarbon revenue following the best international practices is essential. More ambitious efforts are needed to enhance revenues, reduce tax expenditures, revise fuel subsidies, lower administrative costs and restructure

public agencies. We also share staff's recommendation to set limits on spontaneous project proposals and simplified procurement procedures to minimize potential fiscal risks. We welcome the phased implementation of program budgeting and subsequent improvements in budget execution as well as other reforms envisaged under the PFM strategy. The authorities should remain committed to reducing the overall deficit to 3 percent of GDP by 2023 to be in line with WAEMU commitments. We also welcome the delivery of Fund CD which is well-aligned with program objectives, including the MTRS implementation and a sound framework for oil and gas revenues. *Could staff provide an update on the status of the 2021 budget?*

Efforts to safeguard financial sector stability should continue. Continuous monitoring is warranted as additional pockets of vulnerability can rapidly develop, including in microfinance institutions. Addressing the undercapitalization and profitability challenges of state-owned banks as well as completing the separation of the Poste Finance remain priorities. In addition, the authorities should spare no effort in swiftly implementing the action plan to address strategic AML/CFT weaknesses identified by FATF. *Could staff comment on what is being done to address the financial and capital adequacy difficulties of the three banks mentioned in the report?*

Sustained structural reforms are pivotal for securing higher and more inclusive growth, while alleviating social tensions. Private sector development is key to absorb the growing labor force over the medium and long run, so reforms that foster private investment and the business environment, including a revamped framework for PPPs, should figure prominently in the authorities' agenda. We commend the authorities on the targeted measures to support youth and women employment and encourage continued emphasis on training and skills development. We also stress the vital role of transparency and accountability in addressing social and economic impacts of the pandemic. We see merit in improving the functioning of the labor market, as well as improving educational outcomes and upgrading the vocational training system. The adoption of a national financial inclusion strategy is also welcome.

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GRAY/21/1478

June 3, 2021

**Statement by Mr. Bevilaqua, Mr. Velloso, and Ms. Cruz on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the report and Messrs. Andrianarivelo and Diakite for their helpful statement.

We commend the authorities for their swift actions to mitigate the economic, social and health effects of the pandemic crisis. Despite the hardship caused by COVID-19, Senegal's economic growth at 1½ percent in 2020 was stronger than expected at the time of the second PCI review, thanks to the good performance in agriculture, mining, and construction. This is remarkable as many countries experienced outright recession. Nonetheless, challenges persist, and further action is needed, including related to mass vaccination, to help ensure a strong and sustainable recovery.

We support the requests for completion of the third PCI review, modification of quantitative targets, and program under the stand-by arrangement and stand-by credit facility. The Fund's financial support will help cover short-term BOP needs and catalyze additional financing from Senegal's development partners, avoiding excessive reliance on the regional bond market.

Timely implementation and proper monitoring of the authorities' Medium-Term Revenue Strategy (MTRS) will be critical to achieve by 2023 the WAEMU fiscal deficit target. Domestic revenue mobilization will be essential to create additional fiscal space given pandemic-related spending pressures—such as health spending and actions to support youth and women employment and training as well as small and medium-sized enterprises. While we acknowledge the unavoidable delays caused by the pandemic, we encourage the authorities to accelerate the adoption of the MTRS implementation plan and enhance the monitoring committee's effectiveness. Also, hydrocarbon revenues will be important to support the revenue collection strategy. We therefore agree with staff's recommendations to better align the hydrocarbon revenue sharing law with international best practices. In this connection, we also highlight the need to reinforce institutional arrangements for revenue

forecasting, budgeting, and monitoring, considering international price volatility in the oil and gas sector.

While Senegal's public debt is expected to remain sustainable, measures to contain fiscal risks and reinforce debt management are crucial. As public debt is projected to peak at almost 71 percent of GDP this year and the debt profile provides limited room to absorb shocks in the near term, we encourage the authorities to closely monitor fiscal risks stemming from SOEs.

Finally, we commend the authorities' financial inclusion strategy and their efforts to address the pandemic's impact on the most vulnerable through additional cash transfers and subsidies. These measures, combined with forthcoming structural reforms and stronger participation by the private sector, should alleviate the social tensions that have been observed recently in Senegal and create job opportunities and additional sources of income, especially for Senegal's youth and women.

With these considerations we wish the authorities success in their future endeavors.

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GRAY/21/1479

June 3, 2021

**Statement by Mr. Sigurgeirsson and Ms. Ekelund on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for a well-written report and Mr. Andrianarivelo and Mr. Diakite for their helpful Buff statement.

The COVID-19 pandemic has hit Senegal severely, which combined with higher commodity prices and social unrest, is having a major impact on the macro-economic outlook. The ongoing cooperation via the Policy Coordination Instrument (PCI) provides a good foundation for enhanced Fund engagement, now expanded to help address the short-term Balance of Payments (BoP) need. We support the completion of the third review under the Policy Coordination Instrument (PCI), the request for modification of related targets and the arrangement under the Stand-by Credit Facility (SCF) and Stand-by Arrangement (SBA).

A temporary increase in fiscal spending related to the rollout of the vaccination campaign over 2021-22 and the new three-year emergency youth program is well warranted to fight the pandemic and help curbing social unrest. To ensure fiscal sustainability going forward, we concur with staff on encouraging the authorities to limit new recurrent spending commitments associated with the emergency youth program and to ensure the quality of these interventions. We also welcome that the consolidation strategy is based on ambitious revenue mobilization and that the authorities are committed to accelerate the implementation of the Medium-Term Revenue Mobilization Strategy (MTRS). We are pleased to note that the assurances in the document that capacity development (CD) is well-aligned with program objectives, as manifested by the support provided from FAD together with AFRITAC West to implement the MTRS.

On the financing parameters, we note that Fund financing will amount to 1.3 percent of GDP during 2021, in addition to already-committed budget support in the form of grants and concessional loans by multilateral and bilateral partners of 1 percent of GDP. The report also states that the Fund would cover about 40 percent of the estimated financing need over 2021 and 2022, and that the SCF/SBA will make it possible to catalyze additional assistance from other external development partners. *Could staff please elaborate how the Fund's financing share in this case compares to the average share of Fund financing in previous programs to*

Africa? Have there been any attempts to increase the relative contributions from other development actors, with the possibility to provide an overall financing package with even more concessional terms?

We note the apparent soundness of the banking system but agree with staff on the need for enhanced monitoring, *inter alia* due to the pandemic, including on governance related considerations. Moreover, we encourage the authorities to strengthen the AML/CFT framework in the context of increased monitoring by the Financial Action Task Force (FATF). We welcome the progress made on the governance commitments regarding spending of the Fonds Force COVID-19 resources, including a publication of its report of all spending and procurement undertaken with the Fund's resources in June.

Finally, we agree with staff on the importance of ensuring the transparent and sustainable management of the oil and gas revenues before they come on stream, through a framework aligned with best practices in this field.

We wish the Senegalese authorities all success in these challenging times.

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GRAY/21/1480

June 3, 2021

**Statement by Mr. Mohieldin and Ms. Abdelati on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We commend the satisfactory program performance despite a challenging economic, health, and social conditions. We support the requests for completion of the third PCI review, modification of quantitative targets, and the new program, as noted below. We thank staff for the balanced report and Mr. Andrianarivelo and Mr. Diakite for the informative Buff statement.

We support the efforts of the government to mitigate the impact of the pandemic, including the emergency program for youth employment and economic insertion amounting to 3 percent of GDP, spread evenly over 3 years. Nevertheless, the 2021 growth outlook is weaker than had been anticipated last year and external balances are set to widen. We therefore support the request for Fund blended financing in the amount of 140 percent of quota under the SBA/SBF to meet the actual and short-term balance of payments need. We also welcome the extension of Senegal's participation in the G20 DSSI to end-2021.

We agree that a financial arrangement would help support the authorities' crisis response, promote a broad-based recovery, catalyze additional concessional financing, and strengthen the external position of the WAEMU. We also support the front loading of 80 percent of quota disbursed in 2021, consistent with the higher near-term BoP need. The staff report suggests that the authorities decided to keep the PCI for its strong signaling role. One of the attractive features of the PCI is that it could be easily shifted to a financing facility. *We, therefore, would like to hear staff clarification of the rationale for continuing the PCI concurrently with the SBA/SCF—both to extend to end-2022.*

We support the temporary relaxation of the fiscal deficit and the fiscal strategy for 2021-23 as agreed with staff. The spending needs for vaccines and for the youth employment program need to be accommodated, along-side spending prioritization and implementation of the Medium-Term Revenue Mobilization Strategy. The agreed path allows return to the 3 percent deficit in 2023 to maintain public debt on a sustainable trajectory. While we strongly support the initiatives to support youth employment and to enhance education, training, and private sector job creation; like staff *we underscore the importance of efficiency—and would like to know what mechanisms are in place to monitor efficiency of such spending?*

We appreciate staff work in Annex 1 on the Labor Market. It is especially noteworthy that only one half of the working age population is active in the labor market, and that 90 percent of this is in the form of informal employment. *How does this level of informality compare to peer countries and what are the implications for productivity?* Staff reports that participants in workshops identified a lack of education and skills, access to financing and land, as well as an underdeveloped manufacturing sector as key problems. It would be useful to monitor progress in these reforms, which may take a few years to materialize. We welcome the complementary steps to the emergency support to help create 450,000 jobs through the establishment of special economic zones, the “agropoles” (to provide support to agricultural value chains), and a large-scale social housing program (*100,000 logements*) to follow after termination of the subsidized housing program. Staff could elaborate in future reports on the relevant country experience of successful job creation from special zones.

We welcome continued advancing of structural reforms, including on public financial and debt management, as well as the finalization of a legal framework to manage forthcoming hydrocarbon revenue following best international practices. We wish the authorities every success.

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GRAY/21/1481

June 3, 2021

**Statement by Mr. Just and Mr. Marek on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the comprehensive set of reports, and Messrs. Andrianarivelo and Diakite for their helpful Buff statement. The prolonged pandemic puts a strain on Senegal's fiscal and external position, which weighs on the authorities' development objectives, as well as their fiscal and monetary commitments in the WAEMU. **We therefore support the authorities' request for a combined arrangement under the Stand-by Credit Facility (SCF) and Stand-By Arrangement (SBA). We also support the proposed completion of the third review under the current Policy Coordination Instrument (PCI)** and encourage the authorities to continue with their reform commitments in parallel to those under the SCF and SBA. We note positively that the authorities intend to meet the imminent balance-of-payment financing needs through a blended Upper Credit Tranche-quality arrangement, which follows up on the Rapid Financing Instrument/Rapid Credit Facility emergency financing. *We would welcome staff's comments on how they intend to ensure that the conditionality under the PCI and SCF/SBA remains consistent going forward.*

While the loosened **fiscal stance** was warranted to contain the pandemic's economic and health fallouts, gradual fiscal consolidation will be instrumental in reversing the debt trajectory to a downward path. Against this backdrop, we encourage the authorities to move ahead with the implementation of the medium-term revenue strategy, in particular through expanding the tax base and eliminating the tax exemptions. Improving debt management is instrumental in increasing resilience to potential spikes in interest rates and capital outflows. While the participation in the Debt Service Suspension Initiative eased the near-term pressure on debt servicing capacity, a more long-term debt management strategy beyond the current pandemic should be developed. We therefore encourage the authorities to address the vulnerabilities in the state-owned enterprise sector through improved oversight and comprehensive assessments of their financial statements.

Weaknesses in the **financial sector** require increased supervisory attention. Banks' capital buffers need to be closely monitored, owing to increased credit risk in the context of the pandemic and the gradual withdrawal of loan repayment deferrals. While we note that the share of non-performing loans (NPLs) was on a declining path in the banking system, it still

remains elevated. The authorities should also undertake a thorough diagnostic in the microfinance institutions sector to evaluate risks to their balance sheets in view of the substantial increase of NPLs compared to pre-crisis levels. *We would welcome staff's comments on the potential regulatory response to increase financial stability in the microfinance sector, including through consolidation.* The authorities also need to move ahead with the implementation and enforcement of the AML/CFT action plan to enhance the framework's effectiveness.

Structural reforms need to improve opportunities for youth and women participation in the formal labor market through accessible education, as well as create an environment favorable for private sector development. While we positively note the authorities' progress on the revamped framework for public-private partnerships, potential fiscal risks need to be firmly contained. The institutional framework for the stabilization and the intergenerational fund should be enhanced to ensure efficient and transparent resource management in the long term. *Staff's comments on the prospects for eliminating energy subsidies and the transition to a more targeted social security system would be appreciated.*

The development of the hydrocarbon sector will give a significant boost to GDP and fiscal revenues over the next years. In view of the global debate on reducing carbon emissions, staff's medium-to-long term projections on the macroeconomic impact of oil and gas may turn out to be overly optimistic and may offer less opportunities for intergenerational savings. More generally and in view of Senegal's heightened exposure to climate change risks, we encourage staff to try to factor in the potential impact of environmental degradation, as well as the need to increase spending on resilience into the macro framework.

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GRAY/21/1482

June 3, 2021

**Statement by Mr. Lischinsky and Mr. Corvalan Mendoza on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for a clear and concise report and Mr. Andrianarivelo and Mr. Diakite for their informative Buff statement.

We support the completion of the third Policy Coordination Instrument (PCI) review, and the request for a program under the Stand-By Arrangement (SBA) and the Stand-By Credit Facility (SCF). Performance has been satisfactory under the PCI, but important challenges emerged after the COVID-19 pandemic hit Senegal, when the country received emergency financing under the RCF/RFI in April last year. Nevertheless, we are encouraged by authorities' commitment to the objectives of the PCI-supported program and its recalibration to focus on mitigating the transmission of the virus by accelerating the vaccination campaign, while keeping the aspirations of young people for a better future through an economic recovery boost.

We especially want to highlight in the Buff statement that considering that "Senegal has expertise in vaccines manufacturing through its *Pasteur institute of Dakar*, a reinforcement of the production capacity of this institute by the international community would contribute greatly to the fight against the pandemic", not only in the country but also in the rest of Africa.

As in many parts of the world, due to the pandemic, the fiscal deficit inched up to 6.4 percent of GDP in 2020, public debt also increased and is projected to be around 70 percent of GDP in 2021, while inflation remained below the WAEMU regional norm of 3 percent.

The government's Economic Social and Resilience Program (PRES) was instrumental to cope with the pandemic, but more financial resources will be needed to contain the fiscal and external account strains. To sustain the much-needed economic growth and improve social services, to protect the most vulnerable and the level of employment, especially for the young population, an upper credit tranche program would be needed. We take positive note of Senegal's participation in the G-20 Debt Service Suspension Initiative (DSSI), where an important share of its debt service payments was deferred.

Clear medium-term plans will prove essential to signal the future trajectory of the economy and catalyze additional concessional financing. We see merit in the authorities' strategy to

request an upper-credit tranche to reinforce the three pillars of the previous PCI program. First, to maintain macroeconomic stability, including through the increase in tax revenues; second, to seek sustainable and inclusive growth driven by the private sector and support for youth employment; and third, to set a framework for the management of the hydrocarbons sector. *On the latter, we would appreciate staff's further elaboration on the draft law related to the creation of an intergenerational fund to invest in improving the living standard of the population.*

We commend the authorities' idea to return to the WAEMU fiscal deficit norm of 3 percent of GDP in 2023. Yet it is advisable to reiterate the need to take into consideration the quality of public expenditure and to enhance domestic revenue mobilization when the pandemic wanes, as described in Annex III. In the same vein, more efforts to boost fiscal transparency and public sector monitoring are warranted to boost the credibility and predictability of a rules-based decision-making process of the fiscal accounts. Controlling enhancement of the administrative processes, through strict monitoring and the use of modern technology, could help minimize slippages in future years and create a robust fiscal anchor, which is much needed to buttress the development needs of the country.

Technical assistance available from the Fund and other international or regional partners would be important at this juncture. It is advisable to minimize potential slippages of the program. In this regard, a salient element to comply with a plan to return to the WAEMU fiscal deficit norm might be reached with strong coordination and cooperation between the tax offices and the custom administrations. The authorities' plan to achieve the tax-to-GDP target of 20 percent in 2023 seems ambitious.

Adhering to international best practices for the regulation and supervision of the financial system is warranted. Pockets of vulnerabilities were identified, and the BCEAO and the Banking Commission are closely monitoring these risks. The increase of banks' exposure to the government was sizeable last year and this link would need close monitoring in the future. We welcome that the financial inclusion strategy, to facilitate access to financial services, is in its final stages of becoming fully implemented.

With these comments, we wish the people of Senegal success in their endeavors.

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GRAY/21/1486

June 3, 2021

**Statement by Mr. Rashkovan and Mr. Tevdovski on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

*We thank staff for an informative report and Mr. Andrianarivelo and Mr. Diakite for their helpful Buff statement. Given that the program is broadly on track and the new but short-term balance of payment need, **we support the requests for completion of the third policy coordination instrument (PCI) review, modification of quantitative targets, and for an arrangement under the stand-by credit facility and stand-by arrangement.** The Fund's financial support under an SCF/SBA arrangement, concurrent with the PCI, should accompany the authorities' crisis' response and contribute to a recovery, while strongly signaling and catalyzing additional concessional financing to support more favorable debt dynamics. We highlight the importance of the revenue-based consolidation and improvement of the governance framework, including AML/CMT. We offer the following comments.*

While program performance was satisfactory, we underscore the importance of transparency and respect for the rules of ethics and good governance in public procurement. Despite the difficult challenges during the pandemic, the authorities met all PCI quantitative targets for end-2020, except one. The share of single sourced procurement contracts exceeded the program ceiling, as COVID-19-related procurement was allowed by decree to follow simplified procedures. The revocation of this decree in September 2020 is a step in the right direction. We encourage the authorities to follow the best practices in public procurement. Regarding the reform targets, we note the completion of six of the nine targets by end-2020 and the authorities' commitment to meet the delayed reform targets by end-June 2021.

We welcome the authorities' commitment to accelerate revenue mobilization measures. The revenue-based consolidation remains essential to support macroeconomic stability. Public debt peaks at about 71 percent in 2021 and elevation in the projections of total public debt service as share of total revenues in the next years are stark indicators for the importance of the implementation of a medium-term revenue strategy that aims to increase tax-to-GDP ratio, excluding hydrocarbon-related revenues. On the spending side, we support staff's recommendations to limit new recurrent spending commitments and to ensure well-targeted interventions.

We encourage the authorities to formally adopt and follow the public financial management (PFM) strategy. While this strategy, prepared by the Fund's technical assistance, envisaged implementation of far reaching medium-term-structural public finance reform, we welcome the authorities' efforts to implement some key reforms by 2022 like the full implementation of program budgeting, improved spending transparency and execution, and better management of fiscal risks. We agree with staff that in order to limit fiscal risks steaming from public private partnerships it is essential to define a gate-keeper role for the Minister of Finance at all stages of PPP approval, and to establish clear limits on spontaneous project proposals and simplified procurement procedures. Also, we support staff recommendations to limit and properly account for energy subsidies, as well as to create sustainable and transparent management of oil and gas revenues.

Progress in the AML/CFT framework is needed for Senegal to be removed from the enhanced oversight by the Financial Action Task Force (FATF). For this reason, we invite the authorities to ensure timely and effective implementation of the action plan with a focus notably on raising awareness and enhancing the technical capacities of AML/CFT stakeholders, strengthening the risk-based supervision approach for financial institutions, strengthening the sanctions regime in the event of violations of transparency obligations, and improving international cooperation.

With these remarks, we wish the authorities all the success in their future endeavors.

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GRAY/21/1487

June 3, 2021

**Statement by Mr. Zhang and Mr. Huang on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the well-written report and Mr. Andrianarivelo and Mr. Diakite for their helpful Buff statement. The Senegalese economy is heavily hit by the pandemic. Thanks to the authorities' timely policy actions and Senegal's strong economic fundamentals, the growth in 2020 stayed positive. However, the uncertainty remains high and risks are tilted to the downside. While the short-term priority should be continuing to cope with the pandemic, more efforts are needed to address long-term challenges including youth unemployment and oil revenue management. We support the authorities' request for a Stand-By Arrangement (SBA) and an arrangement under the Stand-by Credit Facility (SCF). We also support the completion of the third review under the Policy Coordination Instrument (PCI). We broadly agree with the thrust of staff's appraisal and would like to highlight a few points for emphasis.

A revenue-based consolidation is important to maintain macroeconomic stability while accommodating essential spending. A continued temporary increase in fiscal deficit is appropriate to contain the pandemic and support vaccination. As the crisis abates, a gradual fiscal tightening towards the regional deficit target is essential to ensure debt sustainability and regional macroeconomic stability. The recent finalization of the Medium-Term Revenue Strategy (MTRS) is a step in the right direction. To raise the tax-to-GDP ratio to 20 percent by 2023, the authorities are encouraged to further strengthen revenue collection and expand the tax base. Staff has rightly set up a series of structural reform benchmarks to help the authorities operationalize the MTRS and raise tax revenue. Regarding the energy subsidies, we take note of the authorities' strong preference to keep the prices unchanged in the short term. However, we see merit in staff's suggestion to establish an automatic fuel price adjustment mechanism. *Could staff elaborate more on the fiscal cost of the energy subsidies?*

Comprehensive structural reform is the key to ensure a strong and job-rich recovery.

Like staff, we welcome the authorities' ambitious policy package to support youth employment and emphasize the importance of private sector job creation. While directly expanding public sector employment would help, more should be done to improve the business environment and boost private sector hiring. In this regard, reforms of the land management system and facilitating SME and informal firm financing should be accelerated. *Given that nearly 90 percent of the labor force is in the informal sector, could staff shed light on the policy suggestions on how to formalize the informal sector?* On the management of oil and gas revenue, we support the authorities' efforts to align it with the international best practices. A new fiscal framework, including a non-oil fiscal balance target, should be in place when the oil and gas projects are expected to start production.

The financial vulnerabilities warrant close monitoring and swift action. We take positive note that the banking sector is broadly sound, but with some vulnerabilities exacerbated by the pandemic. Like staff, we encourage the authorities to recapitalize the problematic public banks and strengthen their profitability. The institutional reforms to separate post saving from the post office should continue. Given that the impact from the pandemic is still not clear, the authorities are encouraged to closely monitor the developments in the banking sector, including the microfinance institutions. Meanwhile, more efforts are also needed to improve the AML/CFT regimes and remove Senegal from the enhanced oversight by the Financial Action Task Force (FATF).

With these remarks, we wish the authorities every success in their policy endeavors.

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GRAY/21/1491

June 3, 2021

**Statement by Mr. von Kleist and Mr. Krahne on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for an informative set of reports and Mr. Andrianarivelo and Mr. Diakite for their helpful Buff statement. **We concur with the thrust of the assessment. We further agree with the completion of the third review under the PCI and support the authorities' requests for modification of targets as well as for a new arrangement under the SBA/SCF.** We acknowledge the intent to preserve continuity, building on Senegal's long-standing excellent relations with the Fund. Despite a more moderate than expected slowdown in 2020, Senegal has not yet entered a stable path to recovery. Higher commodity import prices, the recent social unrest, and a protracted pandemic combined with an only slowly advancing vaccination program are currently putting a drag on the economy. Access to additional Fund financing could help cover temporary external financing needs. We strongly encourage the authorities to make the best possible use of the requested arrangements through ambitious reforms in the fiscal and structural areas, to support inclusive and private sector-led growth, maintain debt sustainability and ensure Senegal's capacity to repay. This also requires efforts to attract further support from donors and other highly concessional resources. Given limited fiscal space, additional financing should be chiefly drawn from such highly concessional sources for the foreseeable future.

We welcome that the authorities continue to pursue a cautious fiscal policy stance going forward and are planning to return to the WAEMU annual deficit ceiling of 3 percent of GDP by 2023. While we support the authorities' ambitious revenue-based consolidation approach, we also concur with staff that potential efficiency gains on the spending side should be explored. In particular, we agree with staff that the important emergency youth program (3 % of GDP until 2023) could be further streamlined, inter alia by putting more emphasis on private sector-led initiatives or eliminating overlapping mandates of government agencies. This could free up much needed fiscal space and would allow rebuilding buffers more quickly. Given notable risks both on the revenue and expenditure sides, we recommend careful budget implementation and welcome the agreed precautionary reserve.

We take positive note of Senegal’s solid performance under the PCI so far and encourage the authorities to continue implementing their reform program as planned and to seek to make up for the delays experienced during the pandemic. Carrying over PCI targets as SBs under the new Stand-By Arrangement will reinforce the authorities’ commitment and can send a strong signal to financial markets while laying a valuable foundation for possible further engagement with donors and other IFIs.

We particularly support continued emphasis on setting an appropriate fiscal framework for the upcoming hydrocarbon revenues and to anchor policy in a non-oil fiscal target to avoid pro-cyclical spending (Pillar III of the PCI). Given the important role of hydrocarbon income foreseen in Senegal’s post-pandemic development, a robust and foresighted framework for the management of such resources is of the essence. *Could staff comment on whether long-term prospects for Senegal’s fossil fuel exports might usefully be re-assessed in the light of ongoing international efforts of climate change mitigation?* On the structural side, we explicitly welcome that the authorities have made further progress in pursuing structural reforms under the G20 Compact with Africa .

We look forward to accelerated reforms to improve public financial management as well as to the upcoming reports on the execution of COVID-19 related spending. However, we do note that the latter might have at least partially informed the staff report, if the timing had been managed accordingly. *Could staff provide an initial assessment of the report by the Fonds Force COVID-19 monitoring committee due by June 1, 2021? Also, a comment would be appreciated on how the tasks of this committee and those of the Audit Court relate to each other and on how staff assesses the independence of the two bodies.*

Regarding financial stability, we echo staff’s call for increased vigilance of supervisory authorities as the emergency loan forbearance measures are discontinued and the effects of the pandemic are slowly fully materializing in the financial system. In particular, we share the view that macroprudential measures could become necessary for some of Senegal’s microfinance institutions. Restricting dividend payouts, for example, could be a helpful short-term restriction to preserve the institutions’ financial viability and retain their important role in supporting SMEs and entrepreneurship, especially also of female small-business-owners, during the nascent recovery .

Regarding the likely upcoming allocation of SDR, we note that current projections for Senegal do not yet include such additional reserves. We further note that the country currently holds SDR substantially in excess of previous SDR allocations (206 percent), which roughly match the amount of outstanding Fund credit. *Could staff already provide some preliminary information on how the authorities intend to use the SDRs from the upcoming allocation?*

We note that Senegal has been added to the grey list of the FATF in February 2021. At the same time, Senegal expressed a high-level political commitment to work with the

FATF and GIABA to strengthen the effectiveness of its AML/CFT regime through the implementation of a two years action plan. We strongly encourage the authorities to address the main deficiencies in its regime including by: (1) ensuring consistent understanding of Money Laundering/ Financing of Terrorism (ML/TF) risks across relevant authorities through training and outreach; (2) reinforcing international cooperation in line with its risk profile; (3) ensuring that Financial Institutions and Designated Non-Financial Businesses and Professions (DNFBPs) are subject to adequate and effective supervision; (4) updating and maintaining comprehensive beneficial ownership information and strengthening the system of sanctions for violations of transparency obligations; and (5) strengthening the authorities' understanding of TF risks and enhancing capacity and support for Law Enforcement Agency and prosecutorial authorities involved in TF in line with the 2019 TF National Strategy.

Finally, we encourage the authorities once more to allow automated pass-through of global energy prices to domestic markets, while at the same time safeguarding the most vulnerable parts of society from large swings in the cost of energy through very targeted measures.

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GRAY/21/1492

June 3, 2021

**Statement by Mr. Guerra and Ms. Arevalo Arroyo on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the comprehensive report and Mr. Andrianarivelo and Mr. Diakite for their insightful Buff statement. Senegal continues to cope with the COVID-19 pandemic, as the country faces a second wave of the virus, in hand with increased commodity prices. Program performance under the Policy Coordination Instrument (PCI) has been satisfactory, albeit with some delays. Risks to the outlook are tilted to the downside with uncertainty of the pandemic, slow growth, and increased poverty are putting pressure on fiscal and external accounts as well as increasing financing needs. **Against this backdrop, we support the completion of the third PCI review, modification of the quantitative targets and the request for an arrangement under the stand-by credit facility (SCF) and the stand-by arrangement (SBA) with an access equivalent to 140 percent of quota.**

We welcome that the objectives of the PCI remain appropriate and will guide the new SBA/SCF program. The three pillars of the PCI program will contribute to addressing the most challenging economic aspects while setting the foundations for strong, inclusive, and sustainable growth. We take note that the outlook has shifted to the adverse scenario of the second PCI review, and that risks remain tilted to the downside. However, we agree with the authorities that implementation of their recovery plan, given the strong potential of the economy, could enhance upside risks. We welcome that progress regarding governance commitments on emergency spending is underway.

Fiscal policy should balance the need to support spending needs while ensuring a credible path to fiscal consolidation. We welcome the authorities' commitment to returning to the WAEMU fiscal deficit of 3 percent of GDP in 2023. Efforts to enhance revenue mobilization and strong commitment to the implementation of the MTRS will be instrumental to this end. Given the uncertainty of the outlook and potential spending pressures, the creation of a precautionary reserve to mitigate revenue shortfalls is a step in the

right direction. Enhanced debt management in light of the continued rise of public debt will be important to ensure debt sustainability. In this regard, we agree with staff that concessional borrowing should be prioritized to meet financing needs while limiting non-concessional borrowing only to growth-enhancing investment projects.

Tackling youth unemployment, along with reforms to boost private investment and enhance the business environment, will contribute to achieving strong and inclusive growth. We support the authorities' strong focus on youth and women's unemployment and the creation of a one-stop shop in each administrative region to contribute to finding employment opportunities and provide financial support. We also welcome the introduction of the three-year emergency youth program that will help boost training and job creation. In addition, as noted in the Buff statement, we take positive note that Senegal is making good progress in improving the business sector. We consider that it is important to boost private investment and improve the climate for job creation in order to fully unleash the positive impact of the youth jobs initiative and increase Senegal's growth potential.

We are encouraged that capacity development (CD) is well-aligned with program objectives and look forward to further details on the agenda to support the SBA/SCF. We welcome that MTRS implementation and the PFM reform strategy are supported by Fund TA.

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June 3, 2021

**Statement by Mr. El Qorchi and Mr. Belhaj on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the well-written reports and Mr. Andrianarivelo and Mr. Diakite for their helpful Buff statement. Senegal has made commendable efforts in implementing key PCI-supported reforms. However, the Covid-19 shock has increased short-term BoP needs, warranting additional support from the Fund, particularly to help bridge the financing gap and catalyze additional concessional financing during this challenging time. **Therefore, we support the completion of the Third Review under the PCI, and Request for modification of the quantitative targets together with the authorities' Requests for a Stand-by Arrangement and an Arrangement under the Stand-By Credit Facility.** We offer the following comments.

We welcome the new SBA/SCF financing arrangement, anchored in the sound reform objectives of the PCI. We appreciated the priority given to health and social spending related to the Covid-19 crisis, which will help the economy return to normal. We also welcome the commitment to a medium-term fiscal target of 3 percent of GDP, supported by the Medium-Term Revenue Strategy detailed in Annex 1. The implementation of such an ambitious strategy will require a high degree of institutional capacity and strong ownership by all stakeholders, which we highly recommend.

With respect to subsidies, we understand the authorities' preference not to change oil prices in the wake of social unrest. We are hopeful, however, that subsidy reforms will be revisited as soon as conditions permit, and that government support will target those who need it the most. Completing reforms of the Single National Registry and establishing an efficient digital transfer system are prerequisites to be accelerated.

We take positive note that several reforms envisaged in the program—including tax reforms—aim to help integrate the informal sector into the formal economy. Considering the predominance of the informal sector in the Senegalese economy, *we would have hoped to see*

greater focus on this issue and a deeper analysis of economic impact of the reforms as well as a reference to the potential contributions of other IFIs. Staff's comments are welcome.

The success of the program will largely depend on the effectiveness of the accompanying social package. We welcome the financial support provided by the World Bank to poor and vulnerable households that have suffered from the economic crisis. But beyond this short-term package, the authorities need to consider long-term solutions to fight poverty and improve the living conditions of vulnerable populations. **To this end, the establishment of a program for youth and economic integration is commendable.** We welcome the authorities' efforts made in this regard, particularly in streamlining and enhancing the effectiveness of multiple public initiatives and involvement of a number of agencies. However, we stress that the solutions envisaged to address unemployment should be economically sustainable. Public sector employment efforts should avoid a deterioration in the efficiency and productivity of the public service and an explosion of the wage bill. Like staff, we recommend increased education, demand-driven training, and private sector job creation.

We encourage stronger private sector participation and economic diversification. Public investment in cost-effective projects is a welcome way to support growth and job creation. However, we emphasize the importance of greater private sector participation, including through PPPs, to leverage private sector expertise and resources. To this end, reforms to improve the business climate, particularly in the areas of governance, competition, and institutional and administrative capacity, would be essential. We welcome the authorities' commitment to these reforms, and we encourage the Fund's technical assistance to support their efforts.

We take positive note of the authorities' willingness to address many of the risks associated with an increased reliance on the oil industry. Against this background, we would have appreciated more reference to climate in the report. In a country prone to climate change, the program could indeed have been an opportunity to raise and discuss climate issues in an African context and contribute to exploring the potential economic implications and appropriate responses to stronger climate policies by economic partners.

With this, we wish the Senegalese authorities and people every success.

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GRAY/21/1496

June 3, 2021

**Statement by Mr. Mouminah and Mr. Rawah on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the well-focused report and Mr. Andrianarivelo and Mr. Diakite for their helpful Buff statement. We are in broad agreement with staff's analysis and policy recommendations and would like to make the following comments.

1. **We support the completion of the third review under the PCI as well as the authorities' request for Fund arrangements under the SCF and SBA.** We positively note that program performance continued to be satisfactory, signaling the authorities' commitment to advancing the much-needed structural reforms. While growth turned better than initially anticipated in 2020, the socioeconomic toll was significant due to the prolonged pandemic which gave rise, in addition to other domestic and external factors, to an actual, yet immediate balance of payments need. Therefore, Fund support in our view is critical to help address short-term financing needs and reinforce the authorities' crisis' response. Also, we look forward to its catalytic role towards attracting additional external support. We welcome staff's assessment that Senegal's capacity to repay the Fund is adequate and that while risks to the program are significant, the authorities' strong-track record in implementing Fund arrangement is a key risk mitigant. Also, we positively note that the 2018 safeguard assessment highlights that the BCEAO has maintained a strong control culture with an ongoing progress towards strengthening risk management. Also, we welcome the progress made towards improving the governance of crisis-related spending and encourage further advancements in this regard.

2. **Immediate crisis-related priorities should continue to be addressed followed by fiscal adjustment efforts to bring the fiscal deficit back to the WAEMU target and rebuild fiscal space.** Here, we support the expected temporary increase in the fiscal deficit in 2021 to accommodate the spending priorities envisaged under the revised fiscal strategy, including supporting the vaccine rollout campaign. At the same time, we encourage stepped up efforts towards advancing fiscal reforms. In this connection, we welcome the authorities' commitment to accelerating the implementation of MTRS and encourage further progress

towards finalizing and delivering upon the comprehensive PFM reform strategy. In addition, we encourage further efforts to safeguard debt sustainability, including through strengthening fiscal risk monitoring and debt management capacity. On energy-related issues, we encourage limiting and ensuring proper budgeting of energy subsidies accompanied by energy sector reforms to help strengthen the sector's financial viability.

3. **Finally, the authorities should step up the implementation of structural reforms to foster job opportunities and achieve durable and more inclusive growth.** We appreciate the authorities' emphasis on supporting youth and women employment and welcome the planned measures to ensure better governance, coordination and efficiency of existing public initiatives. Like staff, we see scope, however, for a key role by the private sector to foster job creation. Hence, policy actions of the post-pandemic phase should focus on fostering private sector-led economy. In view of this, we acknowledge the progress made in this respect, including enhancing the business climate, but would encourage further efforts. We also encourage further strengthening the AML/CFT framework.

With these remarks, we wish the authorities further success.

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GRAY/21/1498

June 3, 2021

**Statement by Mr. Fanizza and Ms. Korinthios on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the excellent reports and Mr. Andrianarivelo and Mr. Diakite for an insightful Buff statement. Senegal was hit hard by the pandemic and World Bank's estimates point to a substantial increase in poverty during the last year. We support the authorities' requests for the completion of the third PCI review and the modification of quantitative targets. We also support the request for Fund financial support under SCF/SBA arrangements, in view of new balance-of payments needs that reflect the costs of: (a) mitigating the economic and social impact of the pandemic; and (b) the vaccination campaign. We would like to add the following comments:

- **We welcome the authorities' request for two 18-month blended arrangements under the SCF and SBA, which will also help catalyze additional support from development partners.** We are pleased to note that Senegal has an adequate capacity to repay the Fund and that there are no safeguard concerns, because the strong track-record in implementing Fund arrangements mitigates program risks. We also praise the authorities for the satisfactory program performance under the PCI and welcome their intention to keep the PCI while receiving financial support under the SCF/SBA arrangements. Maintaining the PCI will send a strong signal on the authorities' intention to preserve continuity in reforms.
- **We welcome the extension of the participation in the G20 DSSI to the end of 2021.** Moreover, we are confident that the support from the European Union to the government's Economic and Social Resilience Program (PRES) will provide significant resources to help businesses and people who have been hit by the pandemic.
- **The revised 2021 budget reflects the authorities' priorities, focusing on addressing the effects of the pandemic, supporting the vaccination campaign, and tackling**

youth unemployment, while maintaining macroeconomic stability. The authorities' strong commitment to the implementation of the medium-term revenue mobilization strategy should help create the fiscal space needed for the youth program to succeed. We share staff's view that this program should be complemented by a reform of existing public job-creation initiatives with increased policy focus on the private sector.

- **We regret that, so far, the vaccination campaign has only covered less than 5 percent of the population that makes a third wave of the pandemic a major risk.** Thus, we join the authorities in their call to the international community to expand the production capacity of the Pasteur institute of Dakar, which would also help the global efforts to vaccinate the African continent.

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GRAY/21/1499

June 3, 2021

**Joint Statement by Mr. Buissé, Mr. Ronicle, Mr. Rozan, Mr. Comolet, and Mr.
Evangelou on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the high-quality reports and Mr. Andrianarivelo and Mr. Diakite for their insightful Buff statement.

We welcome Senegal's satisfactory performance under the PCI-supported program, with all quantitative targets but one reached. Considering the short-term balance of payment needs, the impact of three simultaneous shocks (health, economic and security) and the authorities' strong track record, we strongly **support the requests for completion of the third PCI review, modification of quantitative targets, and for an arrangement under the stand-by credit facility and stand-by arrangement equivalent to 140% of quota.**

Senegal avoided a recession in 2020 with a good harvest and proactive pandemic response by the authorities, though risks remain tilted to the downside. In this context, the analysis provided by staff of adverse scenarios is very valuable. While there have been alarming increases in poverty, we agree that the authorities' Economic and Social Resilience Program (PRES) has helped mitigate the socio-economic impacts of the pandemic. As part of Senegal's economic recovery plan, we also welcome the revision of the second phase of the Plan Emergence Senegal to include new priorities on food, health, and the domestic pharmaceutical industry, as well as inclusive growth.

The efforts by the authorities to prudently manage public finances in 2020 are welcome and it will be important to find the right balance between accommodating new spending needs and maintaining sound fiscal policy. We welcome the authorities and staff agreeing on a revised 2021–23 fiscal strategy. The ambitious medium-term revenue strategy and the resumption of efforts to strengthen public financial management will be critical, as lower revenues are weighing on the fiscal accounts, and the timing for additional hydrocarbons tax revenues remains uncertain. *Could staff therefore elaborate on the reasons behind the fact that progress on tax revenue was less favorable than planned?* On the expenditure side, we note that the 2021 budget reflects the vaccine rollout and health needs but believe the implementation of the youth program will require strong coordination with other IFIs to

effectively ease social tensions. *Overall, how do staff evaluate the realism of reaching a 3% deficit in 2023, given that the health and economic difficulties could weigh on hydrocarbon prospects? How do staff envisage taking into account the evolution of security spending within the deficit target?* More broadly, we echo the final declaration of the Summit on the financing of African Economies, which stated that international support to countries could be accompanied by more flexibility on debt and deficit ceilings where appropriate, alongside necessary reforms at the national level, with the assistance of the international community when needed. We therefore encourage staff to work on these issues.

Senegal's debt is projected to remain sustainable with a moderate risk of external and overall public debt distress. We agree with staff's recommendations to favor concessional external borrowing to finance growth-enhancing investment projects and debt management operations. Nonetheless, the debt service to revenue ratio remains quite high.

We note that the banking sector has remained resilient. We would still like to stress some points of attention regarding the high level of NPL at 13.3%, the fact that three (small) banks face financial difficulties, as well as the need to complete the implementation of the resolution framework. Furthermore, we strongly encourage the authorities to address the remaining deficiencies in the AML/CFT framework.

More broadly, it will be important for the authorities to implement the reforms envisaged as part of the PAP2A. This will stimulate private investment and enhance the business environment, in particular on the access to financing of SMEs and the informal sector, education, training, and access to land. These reforms will be key for stronger long term, inclusive and sustainable growth. Setting a clear timetable for implementation will help reinforce the confidence of economic agents.

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GRAY/21/1507

June 3, 2021

**Statement by Ms. Shortino and Mr. Sturm on Senegal
(Preliminary)
Executive Board Meeting
June 7, 2021**

We thank staff for the informative report and Mr. Andrianarivelo and Mr. Diakite for the helpful Buff statement. We welcome the authorities' engagement and progress under the Policy Coordination Instrument (PCI). We are pleased that the PCI has laid the groundwork for the authorities to reach agreement on a fully-fledged program aimed at securing a sustainable economic path. **We support the requests for completion of the third PCI review, modification of quantitative targets, and for an arrangement under the stand-by credit facility (SCF) and stand-by arrangement (SBA).** We welcome that the fiscal framework provides space for increased health spending to support vaccinations and the health response to the pandemic. We offer the following comments for emphasis.

We concur with staff's assessment of the importance of revenue mobilization and welcome the authorities' commitment to accelerate the medium-term revenue strategy. We welcome the measures to broaden the tax base and underscore the importance of creating revenue support for new priority social programs. Staff note that higher oil prices will require an additional 0.4 percent of GDP for energy subsidies given unchanged domestic electricity tariffs and fuel products' prices. We think that there could be an opportunity to reduce energy subsidies, including by coupling such reforms with better targeted social spending. *Could staff elaborate on whether there may be scope to lower subsidies over the course of the program, and comment on the prospects for authorities accepting staff's recommendations for the revision of the hydrocarbon price structure in 2021?*

We welcome other key components of the authorities' reform program including on public financial and debt management, and we encourage the authorities to continue their strong implementation efforts amid challenging circumstances. We welcome the new structural benchmark on implementing the PPP law, including structured approvals, clearer safeguards, and good transparency practices. We note the importance of the rationalization of comptes de dépôt and the implementation of a Treasury Single Account for the reforms under the public financial management reform component. However, staff are proposing to drop this structural benchmark and replace it with an identification and roadmap formulation sub-step by the end of the year. *Can staff please explain their rationale for*

adjusting this benchmark? We note the lack of a debtholder profile for Senegal in the report and would have preferred that debt data broken out by creditor had been included as the recently published Debt Limits Policy guidance note requires, particularly given the uncertainty around future debt sustainability and Senegal's participation in the Debt Service Suspension Initiative. *Can staff indicate whether the authorities shared a breakout of debt data by creditor with IMF staff?*

We encourage a more balanced approach to job creation. We note the importance and significant resources of the emergency youth employment program. While the emergency nature of the program likely provides impetus for initial resources to be tilted toward public sector employment, we agree with staff that such heavy reliance on increasing public sector employment may be ill-suited to improving the dynamism of the private sector and fostering sustainable job creation. We encourage the authorities to consider rebalancing the youth program over time to shift more resources to catalyzing private sector jobs including staff's recommendations such as demand driven training and skill development.

We welcome the authorities' high-level commitment to full implementation of their FATF action plan to strengthen the effectiveness of the AML/CFT regime. Successful implementation of the FATF action plan by September 2022 will require continued high-level ownership and engagement by all stakeholders.

We encourage staff to continue to closely cooperate with the authorities on financing as well as engage early on the SDR allocation. We welcome the authorities' clarifications and commitments with respect to the use of the SCF/SBA and note the Eurobond issued on June 2. *Can staff please comment on the planned use of funds from the Eurobond issuance?* We also urge staff to proactively engage with the authorities on their strategy for utilizing the upcoming SDR allocation. Given the high likelihood of approval of the SDR allocation this summer, we expect staff to take into account the implications of the allocation for upcoming financing needs and reserve adequacy.

We welcome Senegal's use of the PCI in this context and hope this serves as a good example for this under-utilized instrument for low- and middle-income countries. The PCI undoubtedly allowed the authorities to establish a close engagement with Fund staff and enabled a rapid transition to an upper credit tranche program that can help meet emerging financing needs. Finally, we applaud the authorities' continued commitment to full transparency on all spending undertaken with Fund resources, including emergency funds approved last year.

Senegal - Third Review Under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, and Requests for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility

EBS/21/56, June 7, 2021

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of fiscal policy, the youth employment program, financing and governance as well as issues related to program design will be addressed in staff's oral intervention at the Board meeting.

Fiscal Policy

1. *Could staff provide an update on the status of the 2021 budget?*

Budget execution through end-May 2021 is in line with program targets. Revenue collection is slightly above the authorities' objectives, supported by robust performance of the tax administration, and the end-June program target is on track to be met. Spending execution through end-May is also consistent with the initial budget. The government has finalized a revised 2021 budget, in line with staff's recommendations and consistent with the fiscal table presented in the staff report. The revised budget was submitted to Cabinet on June 3 and will be submitted to Parliament in on Monday June 7, 2021.

2. *Could staff therefore elaborate on the reasons behind the fact that progress on tax revenue was less favorable than planned?*

Revenue collection has picked up since the end of 2021Q1 and is now in line with expectations. The shortfall in Q1 was mostly related to taxes on international trade amid sluggish imports.

3. *Overall, how do staff evaluate the realism of reaching a 3% deficit in 2023, given that the health and economic difficulties could weigh on hydrocarbon prospects? How do staff envisage taking into account the evolution of security spending within the deficit target?*

Achieving a fiscal deficit of 3 percent of GDP by 2023 is realistic, provided the medium-term revenue mobilization strategy is implemented successfully. Spending pressures, including due to high aspirations of the population, significant investment needs, and a volatile security environment, could pose risks to the envisaged consolidation. Risks from an underperformance of expected hydrocarbon-related revenues are manageable in the near term given that they are not expected to be significant at the beginning of production. So far, the two major oil and gas projects remain on track for a start of production in 2023.

The last regional consultation (concluded by a board meeting in February 2021) assessed that returning to a regional fiscal deficit of 3 percent of GDP by 2023 was essential to preserve sufficient external reserves, mitigate the risk of pressures on the regional bond market, and prevent further deterioration of countries' debt servicing capacity. The Article IV report also noted that some flexibility could be granted to countries affected by security shocks.

4. *We would appreciate more highlights on the fiscal costs associated with SOE reforms, which staff indicated to have increased due to the pandemic. Details of associated risks in the implementation of the fiscal consolidation are also welcome.*

Contingent liabilities regarding SOEs are limited given that SOE debt is included in the public sector debt perimeter, though data quality can be improved. Operational losses of selected SOEs

can nevertheless pose challenges. The main SOE impacted by the pandemic is the national airline which copes with the crisis through a mix of operational adjustments and transfers. Problems at other SOEs predate the pandemic, for example at the energy utility and the post office group, and are actively addressed together with sectoral development partners. The IMF is providing technical assistance on fiscal risk management, including the monitoring of the situation of SOEs, the setup of analytical frameworks for fiscal risks' assessment and possible risk mitigation measures.

5. *We note the importance of the rationalization of comptes de dépôt and the implementation of a Treasury Single Account for the reforms under the public financial management reform component. However, staff are proposing to drop this structural benchmark and replace it with an identification and roadmap formulation sub-step by the end of the year. Can staff please explain their rationale for adjusting this benchmark?*

The authorities remain committed to the implementation of a fully functional Treasury Single Account (TSA), to improve cash management and spending execution. An important part of this reform includes the progressive closure of general government entities' comptes de dépôt and their gradual migration to the TSA. Given the potential legal challenges posed by the financial autonomy granted by law to these entities and the enshrined practices of autonomous spending, the reform has been sequenced in two steps to maximize chances of success: a first step to identify all accounts and quick wins (roadmap formulation by end of the year), and a second step to resolve potential legal challenges, educate entities to new spending practices and gradually close all accounts, while improving the banking services offered by Treasury to these entities.

Energy Subsidies

6. *Could staff elaborate more on the fiscal cost of the energy subsidies?*

7. *Staff's comments on the prospects for eliminating energy subsidies and the transition to a more targeted social security system would be appreciated.*

8. *Could staff elaborate on whether there may be scope to lower subsidies over the course of the program, and comment on the prospects for authorities accepting staff's recommendations for the revision of the hydrocarbon price structure in 2021?*

Total energy subsidies amounted to 1.2 percent of GDP in 2019, 0.4 percent of GDP in 2020, and are expected to reach 0.7 percent of GDP in 2021 due to higher world oil prices. A total of 0.6% of GDP was also spent in 2020 to clear part of energy unpaid obligations. As of end-2020 the stock of unpaid obligations to the energy sector amounted to 0.8% of GDP, and is expected to be cleared in 2022 and 2023.

Energy subsidies include both (i) compensation to the electricity company for operating losses given fixed domestic electricity tariffs set below cost-recovery levels (these losses increase when the cost of fuel inputs rises); and (ii) compensation to the oil refinery and other private fuel importers when the world oil price rises above the fixed domestic fuel products price (in 2020 world oil prices were below domestic prices, generating additional fiscal revenue).

In the short term, and given the complicated socio-economic environment, the government has indicated that will continue to fix domestic fuel prices. The revision of the domestic fuel price structure in 2021 could however allow for some gradual flexibility/indexation to world oil price movements, at least within some categories of the price structure.

On electricity, reforms are under way as part of the Power Compact to strengthen the financial sustainability of the electricity company and eliminate, in time, the need for subsidies (see MEFP ¶29). In particular, a draft study on the tariff plan to ensure the financial sustainability of the electricity sector has been completed, and the action plan for implementation of the approved recommendations will be adopted in June 2021. The draft cross-debt agreement between the government and Senelec will be signed by end-May 2021. Implementation of the recently-finalized gas-to-power strategy will allow for a reduction in the cost of electricity production by using natural gas produced in Senegal.

Governance

9. *Could staff provide an initial assessment of the report by the Fonds Force COVID-19 monitoring committee due by June 1, 2021? Also, a comment would be appreciated on how the tasks of this committee and those of the Audit Court relate to each other and on how staff assesses the independence of the two bodies.*

[Staff will provide further information on the content of the report in the oral intervention.]

For background, the Fonds Force COVID-19 monitoring committee is an ad-hoc committee created by decree in April 2020. The committee is composed of representatives of the government, parliament, business associations, trade unions, local government representatives, representatives of major political parties and civil society.

The committee's tasks and the report are unrelated to the responsibilities and work of the Audit Court which is a permanent, independent institution. The Audit Court examines annually the execution of budget laws to verify the regularity and conformity of actual public revenues and spending with the approved budget. As part of its report on the execution of the 2020 budget laws, due by the end of October, the court will also examine pandemic-related spending.

Debt Sustainability/Eurobond

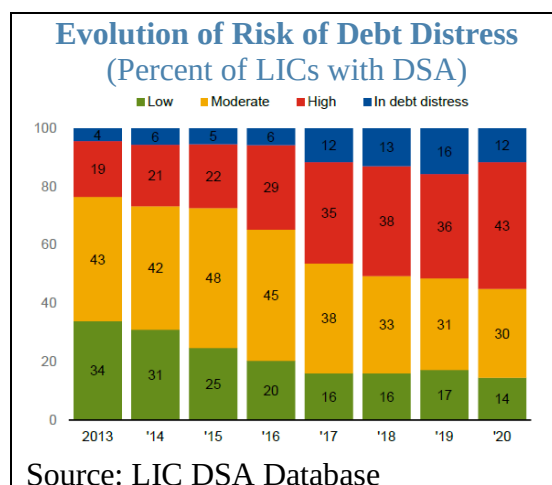
10. *Can the staff provide a comparative analysis of debt profiles in similar group of countries and comment on the relative position of Senegal in terms of risks to debt sustainability?*

Among WAEMU countries, Senegal has a relatively high public debt/GDP, but is the only WAEMU member with a debt carrying capacity rated as “strong”. It is also the only member country to use a broad public sector definition of public debt (see Table). Senegal is among the 30 percent of LICs with a moderate risk of debt distress in 2020, the majority of whom are rated

WEAMU Countries: General Government Gross Debt Levels & LIC DSF Ratings								
	2018	2019	2020	2021	2022	2023	LIC DSF Rating	Debt Carrying Capacity
			<i>Est.</i>	<i>Est.</i>	<i>Est.</i>	<i>Est.</i>		
Benin	41.1	41.2	45.4	47.7	46.3	44.8	Moderate (2020)	Medium
Burkina Faso	37.7	42.7	44.3	46.8	48.1	48.5	Moderate (2020)	Medium
Côte d'Ivoire	40.1	41.2	45.7	46.3	46.6	46.3	Moderate (2020)	Medium
Guinea-Bissau	59.2	66.9	78.1	78.1	76.4	74.0	High (2021)	Weak
Mali	36.1	40.5	44.2	46.1	46.8	46.9	Moderate (2021)	Medium
Niger	36.9	39.8	44.2	44.5	42.0	39.9	Moderate (2020)	Medium
Senegal	61.5	63.8	68.7	70.9	69.9	64.9	Moderate (2021)	Strong
Togo	57.3	53.6	57.6	60.0	59.9	58.5	Moderate (2021)	Medium

IMF WEO Database (April 2021), Senegal 3rd PCI Review

as high risk of debt distress, or in debt distress (see Figure). However, as noted in the DSA, elevated debt levels mean that Senegal has limited space to absorb shocks in the near term.



11. Can staff indicate whether the authorities shared a breakout of debt data by creditor with IMF staff?

The Guidance Note indicates that the updated Debt Limits Policy, including a requirement for a debtholder profile, will come into effect on June 30, 2021. In order to provide teams sufficient time to consult with authorities on the debt holder profile table and other reforms on mission, the reformed policy will start to apply to all policy notes issued for departmental review after this date. Separately, the authorities share debt data broken down by creditor groupings and by creditor where required (e.g., DSSI reporting requirements).

12. Can staff please comment on the planned use of funds from the Eurobond issuance?
[To be addressed in staff's oral intervention]

Oil and gas

13. First, to maintain macroeconomic stability, including through the increase in tax revenues; second, to seek sustainable and inclusive growth driven by the private sector and support for youth employment; and third, to set a framework for the management of the hydrocarbons sector. On the latter, we would appreciate staff's further elaboration on the draft law related to the creation of an intergenerational fund to invest in improving the living standard of the population.

The draft law envisions to distribute revenues between (i) the investment budget, (ii) a stabilization fund that would allow the authorities to manage revenue volatility, and (iii) an intergenerational savings fund to generate sustainable returns for the benefit of future generations. The intergenerational fund will be managed by the existing sovereign wealth fund (FONSIS), and is expected to remain relatively small.

In the current price and production scenarios, expected oil and gas revenues amount to an annual average of about 1.1 percent of 2020 GDP in 2023-26, and will increase to about 3 percent of GDP in 2027-30. In the first years of production, revenue would mostly go to the budget and the stabilization fund, with limited flows to the intergenerational fund. Once the stabilization fund is

properly endowed, the intergenerational fund is expected to receive about 20 percent of annual revenues and could reach a size of about US\$250m in 2030 (1 percent of 2020 GDP).

14. *Could staff comment on whether long-term prospects for Senegal's fossil fuel exports might usefully be re-assessed in the light of ongoing international efforts of climate change mitigation?*

Staff will continue to assess the prospects of these projects as new information becomes available, including on how climate change mitigation measures may affect hydrocarbon demand and prices in the medium to long term. It is worth noting that the implementation of the gas-to-power strategy will reduce Senegal's carbon emissions considerably and create domestic demand for gas. Overall, Senegal will remain a small oil and gas producer.

External Sector

15. *Could the staff comment on the dynamics behind growth in remittances and the trend in remittances among comparable countries during the pandemic period?*

Emerging evidence suggests that remittances in most SSA countries remained robust during the COVID-19 crisis in 2020. The growth in remittances despite the pandemic is mostly attributed to three factors: i) income losses in home countries are often associated with a higher propensity of migrants to send money home; ii) a shift from informal to formal remittances channels; and iii) fiscal support in host countries which helped maintain migrant's income. The authorities stress the third channel while they do not think that a shift from informal to formal transmission channels has played a significant role to explain the resilience of remittances in Senegal.¹

Informality and Employment

16. *What are the projected gains from the youth employment program in terms of employment and output? Is there any strategy for turning a temporary program into more permanent employment gains through addressing structural bottlenecks of the country's labor market?*

The authorities' objective is to create 450,000 new jobs and additional training opportunities over the next three years. Measures to achieve this include direct hiring and public works programs (90,000 jobs), subsidies to private sector job creation (15,000 jobs), and increased access to finance for the self-employed and entrepreneurs (350,000 jobs). The expansion of training opportunities is envisaged to reach 73,000. The program is complemented by reforms to improve the quality of public spending for job creation and enhance the efficiency of educational programs and vocational training.

Since the program builds on existing initiatives and is partly financed through a reprioritization of spending, staff does not expect a significant impact on output in the short term. The longer-run growth impact will depend on whether the program will lead to a permanent increase in workforce skills in line with labor demand.

17. *Given that 90 percent of the labor force is in the informal sector, could staff shed light on the policy suggestions on how to formalize the informal sector?*

¹ See also <https://www.worldbank.org/en/news/press-release/2021/05/12/defying-predictions-remittance-flows-remain-strong-during-covid-19-crisis>

18. *How does this level of informality compare to peer countries and what are the implications for productivity?*

19. *Considering the predominance of the informal sector in the Senegalese economy, we would have hoped to see greater focus on this issue and a deeper analysis of economic impact of the reforms as well as a reference to the potential contributions of other IFIs. Staff's comments are welcome.*

Based on ILO data, Senegal's share of informal employment in total employment of about 90 percent is in line with most countries in Sub-Saharan Africa (e.g. Cote d'Ivoire, Ghana, Niger, Nigeria and Cameroon). (https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.html). The spring 2017 REO on Sub-Saharan Africa provides a more detailed discussion of the challenges associated with the informal economy in Sub-Saharan Africa. Among other things, it finds that the informal sector tends to contain low productivity activities with little scope for productivity gains unless informal sector activity shifts to the formal sector.

The authorities have a multipronged strategy to increase the formalization of the economy. They are facilitating administrative processes, notably by using digital solutions, simplifying tax payments, implementing communication campaigns to register informal companies (under the MTRS), providing training opportunities to self-employed and small-scale informal enterprises, and linking public support to the formalization of companies. Other IFI's, such as the World Bank and African Development Bank, have programs to support economic transformation and formal job creation while Fund TA supports the modernization of revenue administration.

20. *While we strongly support the initiatives to support youth employment and to enhance education, training, and private sector job creation; like staff we underscore the importance of efficiency—and would like to know what mechanisms are in place to monitor efficiency of such spending?*

The authorities are accompanying the youth employment program with a set of governance reforms which aim at improving spending efficiency. They will i) establish employment and entrepreneurship centers for women and youth in 45 departments in the form of one-stop shops; ii) create a unique identifier and a database of recipients of public funding; iii) conclude performance-based contracts with clear targets with all public agencies charged with implementing the youth program; and iv) streamline funds dedicated to support women and youth employment and entrepreneurship.

Financial Sector

21. *Could staff comment on what is being done to address the financial and capital adequacy difficulties of the three banks mentioned in the report?*

The authorities are working with the banks to address capital shortfalls and profitability:

- Bank 1: The capital shortfall is estimated at about CFAF 25 billion (0.1 percent of GDP). A credible capital restoration is under implementation, a combination of new capital injection by all shareholders and internal capital generation, under the Banking Commission's close monitoring. The capital is expected to be restored by end-2021.
- Bank 2: The capital shortfall is estimated at about CFAF 30 billion. Discussions are under way with the government to issue bonds to finance the recapitalization. The recapitalization will be combined with deep restructuring in 2022.

- Bank 3: The restructuring plan is based on asset recovery and new capital injection. There are ongoing efforts to recover impaired assets (CFAF 35 billion recovered in 2020 and about CFAF 16- 20 billion expected to be recovered in 2021). At this stage, there is no clear prospects with respect to strengthening equity capital.

22. *We would welcome staff's comments on the potential regulatory response to increase financial stability in the microfinance sector, including through consolidation.*

Potential regulatory responses to increase financial stability in the microfinance sector include further tightening the licensing regulation, strengthening the monitoring mechanism, closing nonviable institutions and facilitating the restructuring through merger or liquidation.

Program-related Issues/SDR allocation

23. *Given the high degree of uncertainty and risk, have staff considered potential options for including additional flexibility within the program structure?*

The current program design allows for flexibility, as demonstrated by the revision of the fiscal strategy within the context of the Policy Coordination Instrument, the use of an adjustor to account for volatility in budget support, and adjustments to the structural agenda. At this time, staff has therefore not considered additional options to further enhance the program's flexibility.

24. *We, therefore, would like to hear staff clarification of the rationale for continuing the PCI concurrently with the SBA/SCF—both to extend to end-2022.*

[To be addressed in staff's oral intervention]

25. *Could staff please elaborate how the Fund's financing share in this case compares to the average share of Fund financing in previous programs to Africa? Have there been any attempts to increase the relative contributions from other development actors, with the possibility to provide an overall financing package with even more concessional terms?*

The Fund's financing share in Senegal will be about 40% on average during the program period (text table 7 in the staff report), which is slightly above the estimated 34% average across prevailing programs in the African Department. Staff has been closely engaged with Senegal's development financing partners to encourage coherent messaging on policy issues and seek additional financial support. In particular, the team's assumptions regarding World Bank budget support to Senegal are likely to be conservative, as additional budget support from the World Bank is expected within the lifespan of the program but has not yet been confirmed.

26. *We would welcome staff's comments on how they intend to ensure that the conditionality under the PCI and SCF/SBA remains consistent going forward.*

The operational guidance note for the Policy Coordination Instrument sets out the modalities for the concurrent use of a PCI and UFR instruments. Consistency of conditionality is generally ensured as quantitative performance criteria and structural benchmarks under the SCF/SBA are set consistently with PCI test dates and normally apply to the same variables and measures that are quantitative targets or reform targets for the PCI. The authorities' program is spelled out in the Letter of Intent and Memorandum of Economic and Financial Policies, which also serve as Program Statement for the duration of concurrent use.

27. *Could staff already provide some preliminary information on how the authorities intend to use the SDRs from the upcoming allocation?*

[To be addressed in staff's oral intervention]

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States