

CONFORMED COPY

CREDIT NUMBER 4467-SN

Financing Agreement

(Energy Sector Recovery Development Policy Financing)

between

REPUBLIC OF SENEGAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2008

FINANCING AGREEMENT

AGREEMENT dated June 30, 2008, entered into between REPUBLIC OF SENEGAL (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I A of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to forty nine million one hundred thousand Special Drawing Rights (SDR 49,100,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Euro.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its minister responsible for economy and finance.

6.02. The Recipient's Address is:

Ministry of Economy and Finance
Rue René N'diaye
B.P. 4017
Dakar, Senegal

Cable:	Telex:	Facsimile:
MINIFINANCES	3203 G	221-821-1630

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at Dakar, Senegal, as of the day and year first above written.

REPUBLIC OF SENEGAL

By /s/ Abdoulaye Diop

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Madani M. Tall

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions under the Program**

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following actions taken in accordance with terms of reference and in a manner acceptable to the Association:

1. Financial Sustainability of the Recipient's Electricity and Hydrocarbon Sub-sectors

(a) Partial recapitalization of SENELEC through the transfer by the Recipient to SENELEC of an amount equal to 65 billion FCFA ("2007 Recapitalization Amount").

(b) Commitment by the Recipient to:

(i) further recapitalize SENELEC through additional transfers to SENELEC of an amount equal to 37 billion FCFA in Fiscal Year 2008 ("2008 Recapitalization Amount") and of an amount equal to 7 billion FCFA in Fiscal Year 2009 ("2009 Recapitalization Amount") so as to enable SENELEC to: (A) achieve a debt-service coverage ratio of at least 1.2 in Fiscal Year 2009, 1.3 in Fiscal Year 2010 and 1.4 in each Fiscal Year thereafter; (B) reduce its accounts receivable so that in Fiscal Year 2008 and at all times thereafter, they do not exceed 95 days; (C) reduce its arrears to its suppliers so that they do not exceed 100 days in Fiscal Year 2008, 95 days in Fiscal Year 2009 and 90 days at all times thereafter;

(ii) make further transfers to SENELEC in Fiscal Year 2008 (in addition to the 2008 Recapitalization Amount) in amounts sufficient to enable SENELEC to earn an amount equal to its Maximum Authorized Revenue, as decided by CRSE during its Extraordinary Revision in Fiscal Year 2008 ("2008 Maximum Authorized Revenue Amount");

(iii) adjust SENELEC's electricity tariffs so that its average electricity tariff is sufficient to enable it in Fiscal Year 2009 to produce revenues, without budgetary transfers from the Recipient, equal to its Maximum Authorized Revenue, as decided by CRSE during its Extraordinary Revision in Fiscal Year 2008 ("2009 Maximum Authorized Revenue Amount");

- (iv) reschedule the existing arrears on SENELEC's debt to the Recipient over 5 years, with no penalty interest; and
 - (v) make a further transfer to SENELEC in Fiscal Year 2009 (in addition to the 2009 Recapitalization Amount), of an amount equal to 9 billion FCFA in the form of a subordinated shareholder loan, repayable commencing in Fiscal Year 2011.
- (c) Decision by the Recipient, following the decision by the Board of Directors of SAR, to recapitalize SAR by the end of Fiscal Year 2009 in accordance with the requirements of the OHADA Legislation.

2. Governance of the Recipient's Electricity and Hydrocarbon Sub-sectors

- (a) Establishment within SENELEC of the following two committees to assist its Board of Directors, adoption of their respective mandates and appointment of their respective presidents: (i) a Finance and Internal Audit Committee comprised, *inter alia*, of accounting and auditing professionals from the private sector, and (ii) an Investment Committee.
- (b) Preparation of a decree for the establishment of an agency to be responsible for regulating the import, refinery, storage, and distribution of petroleum products in the Recipient's territory.

B. Actions to be Taken under the Program. The actions to be taken by the Recipient under the Program include those set forth below, carried out in accordance with terms of reference and in a manner acceptable to the Association:

1. Financial Sustainability of the Recipient's Electricity and Hydrocarbon Sub-sectors

- (a) Further partial recapitalization of SENELEC through the transfer by the Recipient to SENELEC of the 2008 Recapitalization Amount.
- (b) Adjustment of SENELEC's electricity tariffs and/or transfer by the Recipient of budgetary resources adequate to have enabled SENELEC to generate revenues in Fiscal Year 2008 equal to the 2008 Maximum Authorized Revenue Amount.
- (c) Adjustment of SENELEC's electricity tariffs so that its average electricity tariff is expected to be sufficient to enable it to: (i) achieve a debt-service coverage ratio of at least 1.2 in Fiscal Year 2009; and (ii) produce revenues equal to its 2009 Maximum Authorized Revenue without budgetary allocations from the Recipient.

- (d) (i) Completion of a study to: (A) simulate the impacts of the planned new electricity tariff structure for SENELEC, together with recommended proposed tariff levels; and (B) assess the environmental and social impacts of the reduction of butane subsidies, together with recommended measures to mitigate any such adverse impacts; and (ii) development of an action plan for the implementation of these recommendations.

2. Governance of the Recipient's Electricity and Hydrocarbon Sub-sectors

- (a) Adoption by SENELEC and SAR of procurement procedures designed to ensure the economic, efficient and transparent procurement of goods and services by each, consistent with the Recipient's Public Procurement Code.
- (b) (i) Separation of SENELEC's activities into the following three distinct business lines each with separate accounting: (A) electricity generation; (B) electricity transmission and systems planning, and operations; and (C) electricity distribution; and (ii) adoption by the Recipient of a strategy, consistent with the Program, to facilitate participation by the private sector in the energy sector.
- (c) Completion of an audit by independent auditors of the internal audit functions of SENELEC and SAR, together with recommendations by the auditors for the strengthening of these functions, and development of an action plan for the implementation of such recommendations.
- (d) Creation of an agency to be responsible for regulating the import, refinery, storage, and distribution of petroleum products in the Recipient's territory, and staffing and provision of financial and other resources required for it to carry out its regulatory functions.

3. Long-term Development of the Energy Sector

- (a) Adoption by the Board of Directors of:
 - (i) SENELEC of master plans for electricity generation, transmission and distribution, based on the recommendations of independent consultants; and
 - (ii) SAR of an investment program, based on an updated technical, economic, financial and environmental feasibility study of SAR's investment program, prepared by SAR in conjunction with its technical assistant, supported by qualified consultants.

- (b) (i) Submission to the Recipient's Parliament of a regulatory framework designed to facilitate and promote the development of new and renewable energy sources; and (ii) adoption by the Recipient of an action plan acceptable to the Association designed to increase energy efficiency and improve demand-side management of energy resources.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in two tranches. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
First Tranche	34,400,000
Second Tranche	14,700,000
TOTAL AMOUNT	49,100,000

- C. Tranche Release Conditions.** No withdrawal shall be made of the Second Tranche unless the Association is satisfied, after an exchange of views as described in Sections 3.01 (a) and (b) of this Agreement based on evidence satisfactory to the Association:
1. with the progress achieved by the Recipient in carrying out the Program;
 2. that the macroeconomic policy framework of the Recipient is appropriate; and
 3. that the actions described in Part B of Section I of this Schedule have been taken.

If, after this exchange of views, the Association is not so satisfied, it may give notice to the Recipient to that effect and, if within ninety (90) days after the notice, the Recipient has not taken steps satisfactory to the Association with respect to paragraphs 1, 2 and 3 above, then the Association may, by notice to the Recipient, cancel all or any part of the Unwithdrawn Financing Balance.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain, a separate deposit account in FCFA on terms and conditions satisfactory to the Association (“Deposit Account”).
2. All withdrawals from the Financing Account shall be deposited by the Association into the Deposit Account.
3. The Recipient shall ensure that upon each deposit of an amount of the Financing into the Deposit Account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Audit. Upon the Association’s request, the Recipient shall:

1. have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than four months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the Deposit Account and its audit as the Association shall reasonably request.

G. Closing Date. The Closing Date is June 30, 2010.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2018 to and including April 15, 2028	1%
commencing October 15, 2028 to and including April 15, 2048.	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “CRSE” means the “*Commission de Régulation du Secteur de l’Electricité*”, the Recipient’s Electricity Sector Regulatory Commission established pursuant to the Electricity Legislation and operating under the laws of the Recipient.
2. “Electricity Legislation” means the Recipient’s: Law No. 98-29 of April 14, 1998 relating to the electricity sector, as amended by Law No. 2002-01 of December 26, 2001; Decree No. 98-333 dated April 21, 1998 establishing CRSE; Decree No. 98-334 dated April 24, 1998 relating to electricity concessions; and Decree No. 98-335 dated April 21, 1998 relating to the principles and procedures for determining and revising tariff conditions.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked

718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "Extraordinary Revision" means an interim revision, made by CRSE of the formula for determining the Maximum Authorized Revenue, on the basis of inflation, pursuant to CRSE's Regulation No. 10-2008 of February 29, 2008.
 5. "Fiscal Year" means a calendar year, commencing on January 1 and ending on December 31.
 6. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.

7. “FCFA” means the *Franc de la Communauté Financière d’Afrique*, the Currency of the Recipient.
8. “Maximum Authorized Revenue” means “*Revenu Maximum de Référence*”, the maximum revenue, determined by CRSE, which SENELEC is authorized to earn, as determined from time to time by CRSE pursuant to the Electricity Legislation.
9. “OHADA Legislation” means the Uniform Act relating to Commercial Businesses and Economic Entities (*Acte Uniforme relative au Droit des Sociétés Commerciales et du Groupement d’Intérêt Economique*) adopted by the Council of Ministers of the *Organisation pour l’Harmonisation en Afrique du Droit des Affaires* (OHADA) on April 17, 1997.
10. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letters dated February 11, 2008 and May 19, 2008 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
11. “Public Procurement Code” means the Recipient’s Decree No. 2007-545 of April 25, 2007 governing public procurement.
12. “Second Tranche” means the amount of the Financing allocated to the category entitled “Second Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
13. “SAR” means “*Société Africaine de Raffinage*”, a petroleum refining company, established as a corporation (*société anonyme*) and operating under the laws of the Recipient.
14. “SENELEC” means “*Société de l’Electricité du Sénégal*”, the Recipient’s national power utility, established as a corporation (*société anonyme*) pursuant to the Recipient’s Law No. 98-06 of January 28, 1998 authorizing SENELEC’s transformation into a corporation.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program.”