

**AFRICAN DEVELOPMENT FUND**



**AFRICAN DEVELOPMENT BANK**



**SENEGAL - HIPC APPROVAL DOCUMENT**  
**COMPLETION POINT UNDER THE ENHANCED FRAMEWORK**

**NB : This document contains errata or corrigenda (see Annexes)**

## TABLE OF CONTENTS

		<u>Page</u>
I	Introduction	1
II	HIPC Qualification	1
III	HIPC Costs	2
IV	Assistance Delivered during the Interim Period	3
V	Bank Group Involvement in the PRSP Process	4
VI	Proposed Delivery Modality	5
VII	Indicative Financing Arrangements	6
VIII	Recommendations	7
<b>Tables</b>		
	<b>Table 1:</b> Breakdown of Senegal HIPC Costs	3
	<b>Table 2:</b> Indicative Financing Arrangements	7
<b>Chart</b>		
	<b>Chart 1 :</b> Impact of Debt Relief on Senegal’s Bank Group Debt Service Profile	6
<b>Annexes</b>		
	<b>Annex 1:</b> ADB - HIPC Debt Relief Schedule	
	<b>Annex 2:</b> ADF - HIPC Debt Relief Schedule	
	<b>Annex 3:</b> ADB/ADF Debt Service Profile	
	<b>Annex 4:</b> Senegal - Completion Point Document : IMF/ World Bank	

## **ACRONYMS AND ABBREVIATIONS**

ADB	African Development Bank
ADF	African Development Fund
CSP	Country Strategy Paper
CPA	Country Performance Assessment
DSA	Debt Sustainability Analysis
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association of the World Bank
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NCBP	National Capacity Building Program
NGOs	Non Governmental Organization
NPV	Net Present Value
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RSDP	Road Sector Development Program
WAEMU	West African Economic and Monetary Union

# **SENEGAL - HIPC APPROVAL DOCUMENT COMPLETION POINT UNDER THE ENHANCED FRAMEWORK**

## **I. INTRODUCTION**

1.1 In April 2004, Senegal became the 9<sup>th</sup> regional member country (RMC) to reach the completion point under the enhanced HIPC Initiative. As a result, the Boards of Directors of the IMF and the World Bank approved US\$ 488 million worth of debt relief in end 1998 NPV terms for the country as agreed at the decision point in June 2000 under the enhanced HIPC framework.<sup>1</sup> Senegal qualified under the fiscal criterion by attaining debt sustainability at the NPV of debt to fiscal revenue ratio of 250 percent. After HIPC assistance, and additional debt relief, Senegal's NPV of debt to revenue at the end of 2002 was 156 percent, far below the HIPC threshold, and the ratio is projected to decline gradually thereafter.

1.2 Following this introduction, Section 2 summarizes details of the status of implementation of Senegal's policy reform during the interim period, June 2000 to April 2004. The total debt relief is disaggregated in Section 3 to illustrate the breakdown of HIPC costs to all creditors at the decision and completion points. Section 4 shows the HIPC debt relief assistance delivered during the interim period. The Bank Group's operations are reviewed in Section 5, with particular reference to activities related to the progress made by Senegal in the implementation of its Poverty Reduction Strategy Paper (PRSP). Section 6 presents details of the proposed delivery modality. The indicative financing plan is presented in Section 7. Finally, recommendations for the Boards' consideration are contained in Section 8.

## **II. HIPC QUALIFICATION**

### **Policy Reform Requirements**

2.1 Senegal reached its decision point in June 2000 and qualified for US\$488 million worth of debt relief assistance in end 1998 NPV terms.<sup>2</sup> This relief represents a common reduction factor of 19.3 percent of the debt in end-1998 NPV terms, after the full use of traditional debt relief mechanisms. It reduced Senegal's external debt from US\$2.498 billion to US\$2.050 billion in end 1998 NPV terms, equivalent to 17.93 percent reduction in the country's outstanding stock of debt.<sup>3</sup>

2.2 In line with the enhanced HIPC framework arrangements, Senegal had to fulfill the following four key conditions to reach the completion point:

- Completion of the full PRSP and concurrent improvements of the poverty database and poverty monitoring capacity.

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<sup>1</sup> IMF/IDA: Senegal: Decision Point Document under the Enhanced HIPC Initiative, 2 June 2000

<sup>2</sup> Senegal – HIPC Approval Document: Decision Point under the enhanced Framework, Ref. ADB/BD/WP/2000/110 – ADF/BD/WP/2000/137 dated 24 October, 2000.

<sup>3</sup> IMF/IDA: Senegal: Decision Point Document under Enhanced HIPC Initiative, April 2004, Table 3.

- Maintenance of a stable macroeconomic stance as evidenced by continued strong performance under a program supported by an arrangement under the PRGF, as well as compliance with specific macroeconomic targets.
- Implementation of fiscal reforms and structural reforms in social services and state-owned enterprises.
- Achievement of key social objectives, particularly in health and education.

2.3 Senegal has implemented satisfactorily the reforms agreed at the decision point. The country completed the PRSP in December 2002 and its implementation has been satisfactory. Regarding the use of budgetary savings from HIPC debt relief, an expenditure tracking system has been successfully developed and implemented. Performance under the new PRGF arrangements, approved in April 2003, has been satisfactory as the macroeconomic program has been on track and most of the policy reforms agreed at the decision point have been implemented; financial policies have been prudent and the pace of structural reforms satisfactory. A strong basic fiscal balance of government operations was maintained in 2000/2003, with a surplus of 1 percent of GDP achieved in 2000, and again a surplus of 2.1 percent of GDP attained in 2002. Reforms of the taxpayer unit of the Ministry of Finance raised Government's capacity at mobilizing domestic resources to finance poverty reduction programs. Bank credit to the Central Government was capped to ensure sound fiscal management and to control net credit to the Government. Furthermore, the Government privatized 11 state-owned enterprises, as planned, to stop further financial hemorrhage from the budget.

2.4 The Government maintained budgetary increases for primary education from 40 percent in 1998 to 44 percent in 2003, and continued to employ teachers at an average of 3,800 per year on contract basis during 2000-2003, exceeding the original target. Regarding health, the Government continued to increase the proportion of pregnant women receiving prenatal care, from 56 percent in 1999 to 82 percent in 2001 and 2002, which was more than the target. However, there were three targets, which were not fully implemented: (i) one was in the fiscal arrangements, and (ii) the other two were triggers in the health sector. In the area of fiscal balance, in 2001 a one-off exceptional budget transfer, equivalent to 3.1 percent of GDP, was made to two parastatals in the context of the PRGF supported program, and as a result the target for the basic fiscal surplus in 2001 could not be met. In the health sector, the child immunization targets could not be reached, and the utilization rates of primary health care centers were below target as well. Nevertheless, with regard to these three targets, the Boards of Directors of the IMF and World Bank agreed to approve waivers on them at the completion point.

2.5 A copy of the relevant HIPC completion point document prepared by the Bretton Woods Institutions (BWIs), with more details on the justification, is attached as Annex IV to this report for ease of reference.

### **III. HIPC COSTS**

#### **Breakdown of Total HIPC Costs among Creditors**

Of the total debt relief of US\$488 million, multilateral creditors will account for US\$276 million (56.5 percent) of Senegal's debt relief, while bilateral creditors will deliver the remaining

balance of US\$212 million (43.5 percent).<sup>4</sup> The Bank Group's share of debt relief will amount to US\$56.8 million (in 1998 NPV terms) which is equivalent to about 20.6 percent of the multilateral creditor's assistance, and about 11.6 percent of total assistance from all creditors. Table 1 below shows a breakdown of the total costs in 1998 NPV terms, among the bilateral and multilateral creditors.

**Table 1 Breakdown of Senegal's HIPC Costs**  
(in US\$ millions)

<b>Creditors</b>	<b>Decision Point assistance</b>	<b>Completion Point assistance</b>	<b>Percent of multilateral debt relief</b>	<b>Percent of total debt relief from all creditors</b>
1- Bilateral Creditors	212	212	-	43.4
2- Multilateral Creditors	276	276	100.0	56.6
<i>of which:</i>				
<b>Bank Group</b>	<b>56.8</b>	<b>56.8</b>	<b>20.6</b>	<b>11.6</b>
World Bank	124	124	44.9	25.4
IMF	45	45	16.3	9.2
Other Multilaterals	50	50	18.1	10.2
<b>Total HIPC Debt Relief</b>	<b>488</b>	<b>488</b>	<b>-</b>	<b>100.0</b>

Source: IMF/IDA and Bank Group HIPC database

#### IV. ASSISTANCE DELIVERED DURING THE INTERIM PERIOD

4.1 The Bank Group debt relief to Senegal during the interim period, June 2000 to end June 2003, was US\$ 24.1 million in nominal terms, equivalent to US\$ 22.7 million in 1998 NPV terms, and equal to the 40 percent ceiling on interim relief. Due to the failure by Senegal to reach the completion point in June 2003, and as interim resources had been exhausted, the country ended up paying in full its debt service due (US\$12.5 million in NPV terms) for the ten-month period up to completion point in April 2004.

4.2 The assistance from the Bank Group under the enhanced HIPC Initiative, as agreed at the decision point, amounts to US\$56.80 million in 1998 NPV terms, equivalent to US\$64.21 million in nominal terms. This assistance was to be delivered through reduction in debt service to the Bank Group over a period of 6 years (2000-2005). As noted above, interim assistance by the Bank Group was exhausted in June 2003, but the total debt relief committed by the Bank Group of US\$56.8 million in NPV terms has to be delivered. In order to compensate for the interruption of relief, while maintaining the same amount of debt relief in NPV terms, it is proposed that the debt relief schedule be extended by 8 months beyond the original schedule.<sup>5</sup> Accordingly, the total debt relief would increase to US\$ 65.42 million, in nominal terms (see Annexes I and II).

<sup>4</sup> IMF/IDA: Senegal: Completion Point document under the Enhanced HIPC Initiative, April 2004, Table 13, pages 43-44 under Senegal's Status of Creditor Participation under the Enhanced HIPC Initiative.

<sup>5</sup> See IMF/IDA: Senegal Completion Point document under the Enhanced HIPC Initiative, April 2004 Pages 1 and 2 for IDA treatment of the extension.

## V. BANK GROUP INVOLVEMENT IN THE PRSP PROCESS

5.1 Senegal's PRSP was completed in June 2002, involving the Government, the beneficiaries, civil society, NGO's, the private sector and the Bank Group, among other development partners in a broad based participatory process. It sets out medium and long-term objectives, focusing on economic and structural reforms, private sector development and poverty reduction. The PRSP also defined sectoral priorities and strategies to be implemented, which embrace the following objectives: (i) reduction of poverty by half by 2015 in line with the MDGs, especially through improvements in primary health care and education; (ii) promotion of agriculture and rural development; (iii) development of basic infrastructure; (iv) fostering good governance, including peace building and conflict prevention; (v) capacity building; and (vi) increasing markets for exports in industrial nations.

5.2 The Bank Group actively supported Senegal during the process of preparing the country's PRSP through facilitation of discussions and dialogue in identifying the sectoral priorities in the areas of rural development, social development, governance, private sector support and macroeconomic reforms. The Country Strategy Paper (CSP)<sup>6</sup> for Senegal for the 2002-2004 period is based on the guiding principles of selectivity, country ownership, participatory approach and strategic partnership emphasized by the Bank Group's Strategic Plan. It is also in line with the thrust and orientation of the country's PRSP.<sup>7</sup> In this regard, Bank Group operations' strategy focuses only on two key sectors (i) rural development, with particular emphasis on irrigation and rural electrification; and (ii) the social sector, particularly primary education and health. In the area of rural development, the Bank Group is promoting small-scale irrigation and rural electrification; intensification and diversification of agricultural production; decentralization and capacity building. Accordingly, the Bank Group has approved the Anambe basin rural development support project; the rural infrastructure project; the implementation study of three hillside dams, the livestock project phase 11; and the Diam Nadjo-Mbour road project.<sup>8</sup> Concerning education, the Bank will continue to intensify its support in improving access to education by increasing the intake capacity of the education system, enhancing the teaching and learning conditions up to secondary schools, and developing the technical and material capabilities of this sector. Regarding the health sector, the Bank Group will focus on the continuation of capacity building, the fight against STD/HIV/AIDS and extensions in the areas of reproductive health in the rural areas and implementation of the Dakar sanitation project during this period.

5.3 Furthermore, the Bank Group will continue to support consolidation of the macroeconomic framework through policy-based lending, and it will also step up its technical assistance for capacity building in the area of production and dissemination of economic information. In order to rationalize budgetary management, the Bank Group will continue to support reforms particularly in the fiscal agencies (Customs, Tax Administration and the Treasury) in close coordination with the Bretton Woods Institutions, as defined in the Annual

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<sup>6</sup> Senegal: Country Strategy Paper 2002-2004 (Ref. ADB/BD/WP/2003/30 - ADF/BD/WP/2003/26 - 8 May 2003)

<sup>7</sup> Annual Review of the Strategic Plan 2003-2007 (Ref. ADB/BD/WP/2004/47 - ADF/BD/WP/2004/44 - 26 April 2004)

<sup>8</sup> Senegal: Country Strategy Paper 2002-2004 (Ref. ADB/BD/WP/2003/30 - ADF/BD/WP/2003/26 - 8 May 2003)

Annex 2: Bank Group Commitments as at 15 March 2003

Review of the Strategic Plan.<sup>9</sup> As well, the next opening of the Bank's national office in Senegal in 2004/2005 will enable the Bank to play an active role in donors' coordination activities in the field. Within this enhanced framework, the Bank Group will be better positioned and equipped to assist with the private sector development strategy, particularly through continuation of the reforms aimed at rationalizing the institutional environment, and support the SMEs in order to integrate them into the sub-regional and world markets.

5.4 Under the ADF-IX enhanced performance-based allocation system, the Bank Group approved for Senegal an amount of UA 52.05 million (including a maximum of UA 3.90 million in the form of grants) to be utilised for poverty reduction projects and reform programs in accordance with the priorities contained in the CSP 2002-2004. Through the decentralisation of its activities in Senegal, the Bank Group will be in a better position strategically to contribute to the monitoring of pro-poor projects and programs under the PRSP and CSP. This will be critical to ensure that, during the ADF-X period, the poor benefit from these projects and programs aimed at increasing their productivity and income earning capacities.

## **VI PROPOSED DELIVERY MODALITY**

6.1 At the decision point, the Boards of Directors of the IMF and the World Bank approved the proposal that the debt relief assistance to Senegal be geared towards smoothing the time profile of Senegal's debt service to the Bretton Woods Institutions and to other multilateral creditors. For the Bank Group, the bulk of the debt relief would be provided between 2000-2006 when debt service obligations are the highest, until the required NPV reduction is achieved in 2006.<sup>10</sup>

6.2 As Senegal has reached the completion point, it is proposed that the Bank Group makes a commitment to provide irrevocable debt relief of US\$ 56.80 million in 1998 NPV terms with effect from June 2000 as per the debt relief schedule. The debt relief would be provided by releasing Senegal from up to 80 percent of its debt service obligations to the Bank Group each year until the entire amount of US\$56.8 million is delivered over the next 2 years by end-May 2006. The impact of debt relief on Senegal's debt service profile is illustrated in Chart 1 below, while the country's debt service profile before and after HIPC assistance is shown in Annex III<sup>11</sup>

6.3 The provision of debt relief, as described, is consistent with the rules and regulations of the African Development Bank and the African Development Fund.

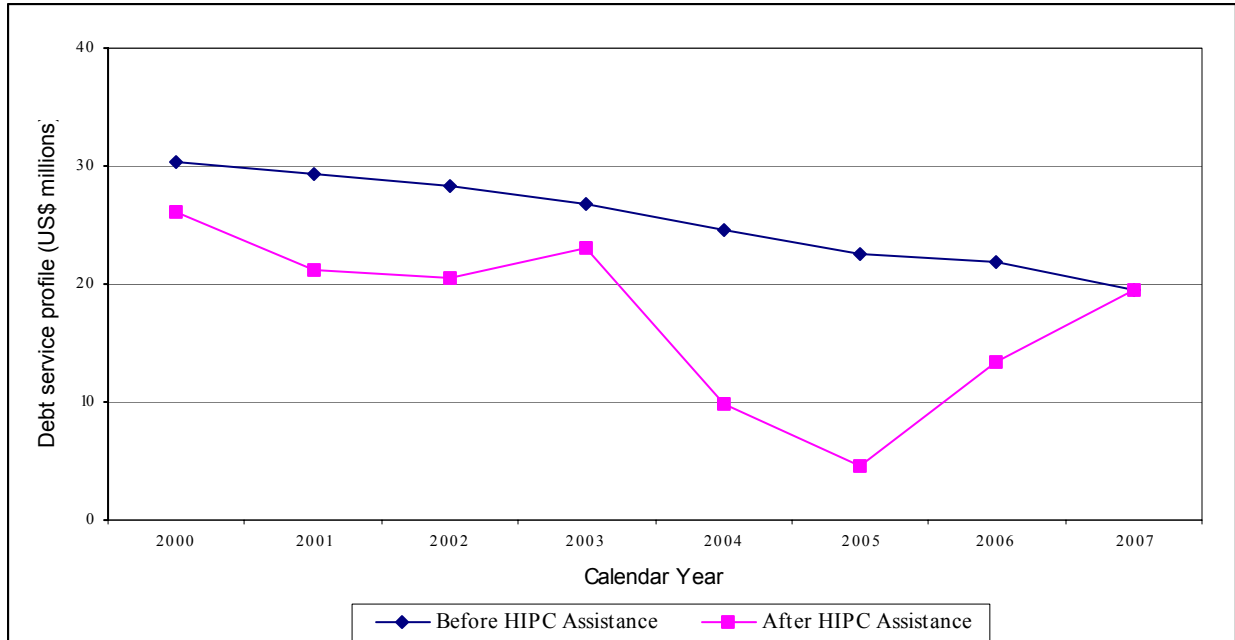
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<sup>9</sup> See Annual Review of the Strategic Plan – 2004 (ADB/BD/WP/2004/47 and ADF/BD/WP/2004/44), dated 26 April 2004; Country Business Model for ADF-RMCs in Section 5.4 on selectivity and greater differentiation among RMCs.

<sup>10</sup> IMF/IDA: Senegal: Decision Point Document under the HIPC Initiative, dated 1 June 2000, pages 20/21; and Bank Group Board Approval Document for Senegal at the Decision Point : Ref ADB/BD/WP/2000/110 – ADF/BD/WP/2000/137

<sup>11</sup> See also the HIPC debt relief schedule, Annexes I and II

**Chart 1: Impact of Debt Relief on Senegal's Debt Service Profile  
(in million US\$)**



Source: Annex III

## Legal Aspects of Debt Relief Operations

6.4 Debt relief for Senegal is to be provided, under the enhanced HIPC framework, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by:

- A revised Debt Relief Agreement between the Bank Group and the Government of Senegal;
- A HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the Government of Senegal; and
- A Contribution Agreement between the Bank Group and the IDA.

## VII. INDICATIVE FINANCING ARRANGEMENTS

7.1 The Bank Group's share of debt relief will be financed as shown in Table 2.

7.2 During the interim period, the debt relief amounting to US\$ 24.1 million in nominal terms was provided to Senegal by the EC and the HIPC Trust Fund.

**Table 2 : Indicative Financing Arrangements**

(US\$ million, NPV 1998 terms)

<b>Sources of Financing</b>	<b>Total Contribution</b>	<b>Percent of total (%)</b>
Internal Resources	11.36	20
European Commission pledge	22.72	40
HIPC Trust Fund	22.72	40
<b>TOTAL</b>	<b>56.80</b>	<b>100</b>

**VIII. RECOMMENDATIONS**

The Boards of Executive Directors are invited to:

- Note the justifications for Senegal's qualification for HIPC assistance at its completion point, under the enhanced framework; and
- Approve the plan to finance the Bank Group's share of HIPC debt relief for Senegal, in accordance with the arrangements presented in Section 7.

**AFRICAN DEVELOPMENT BANK**  
**HIPC Debt Relief Schedule at Completion Point**  
**(in US\$ millions)**

**SENEGAL**

Completion Point  
Date: April 2004

Calendar year	TOTAL ADB	TOTAL (ADB/ADF)
2000-2003*	20.931741	24.125231
2004	12.974230	14.801196
2005	14.170253	18.048111
Jan – May 2006	6.508923	8.446639
	<b>54.585148</b>	<b>65.421177</b>

**Summary**

Total Nominal Relief	US\$ 65.421177 mn
of which	
<b>ADB</b>	<b>US\$ 54.585148 mn</b>
ADF	US\$ 10.836029 mn
Total NPV Relief	US\$ 56.800000 mn
Duration	07 years

\* Total of debt relief granted during the interim period

## AFRICAN DEVELOPMENT FUND

HIPC Debt Relief Schedule at Completion Point  
(US\$ millions)**SENEGAL**

Completion Point Date	Calendar year	TOTAL ADF	TOTAL (ADB/ADF)
April 2004	2000-2003*	3.193490	24.125231
	2004	1.826966	14.801196
	2005	3.877857	18.048111
	Jan – May 2006	1.937715	8.446639
		<b>10.836029</b>	<b>65.421177</b>

**Summary**

Total Nominal Relief	US\$ 65.421177 mn
<i>of which</i>	
ADB	US\$ 54.585148 mn
<b>ADF</b>	<b>US\$ 10.836029 mn</b>
Total NPV Relief	US\$ 56.800000 mn
Duration	07 years

\* Total of debt relief granted during the interim period

## Senegal: Debt Service Profile

(in US\$ million)

Year	Before Debt Relief			Debt Relief			After Debt Relief		
	ADB	ADF	Total	ADB	ADF	Total	ADB	ADF	Total
2000	26.9785	3.4282	30.4067	3.7332	0.5047	4.2379	23.2453	2.9235	26.1688
2001	25.6989	3.6798	29.3787	7.1854	1.0289	8.2143	18.5135	2.6510	21.1645
2002	24.4818	3.8777	28.3595	6.8451	1.0842	7.9293	17.6367	2.7935	20.4302
2003	22.4328	4.2988	26.7316	3.1681	0.5757	3.7437	19.2648	3.7231	22.9879
2004	20.0175	4.5748	24.5924	12.9742	1.8270	14.8012	7.0433	2.7479	9.7912
2005	17.7128	4.8473	22.5601	14.1703	3.8779	18.0481	3.5426	0.9695	4.5120
2006	16.7918	4.9975	21.7894	6.5089	1.9377	8.4466	10.2829	3.0598	13.3427
2007	14.2455	5.3112	19.5567	-	-	-	14.2455	5.3112	19.5567
<b>Total</b>	<b>168.3597</b>	<b>35.0154</b>	<b>203.3751</b>	<b>54.5851</b>	<b>10.8360</b>	<b>65.4212</b>	<b>113.7745</b>	<b>24.1794</b>	<b>137.9539</b>

**Note:** The debt relief for Senegal will be delivered over a period of six years from 2000-2006. The debt relief schedule is short due to the size and maturity structure of the ADB loans. The trend of debt relief is not stable due partly to the suspension of debt relief assistance in the second semester of 2003 and the extension of the debt relief program to 2006. Thereafter (2007), Senegal will assume full payment of its debt service obligations.

**IMF/World Bank HIPC Document for SENEGAL**

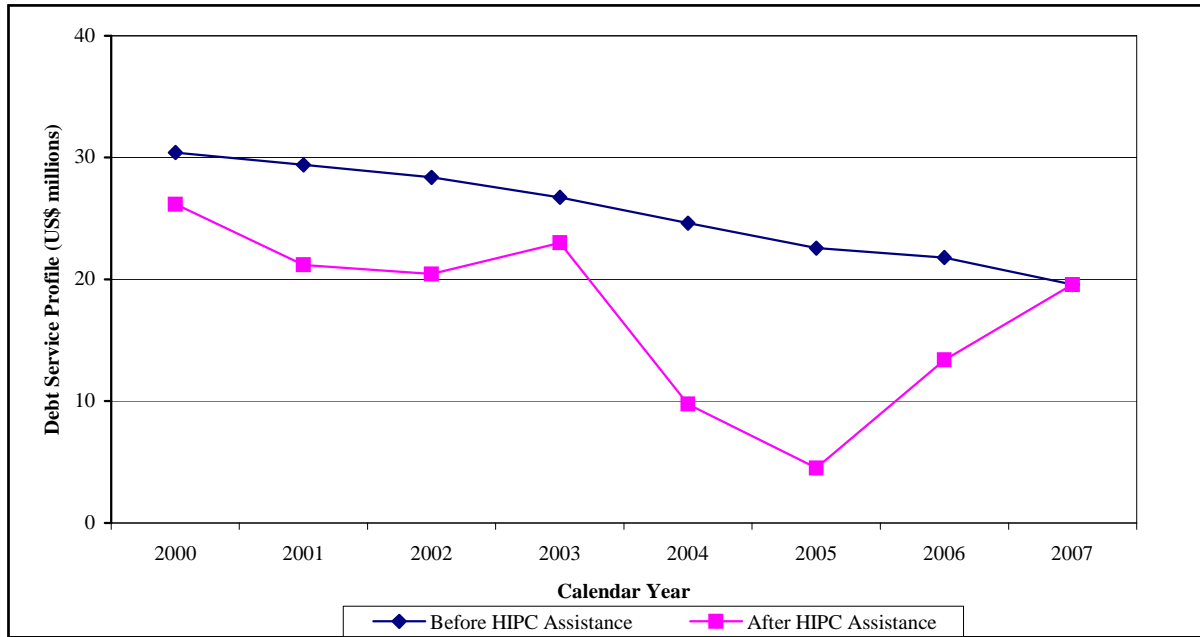
(available in hard copy only)

# Annex

**MAIN DOCUMENT**

**Chart 1** was revised and should be replaced by the chart below:

**Chart 1: Impact of Debt Relief on Senegal's Debt Service Profile  
(in million US\$)**



Source: Annex III

## ANNEXES

**Annex I** was revised and should be replaced by the annex below:

### AFRICAN DEVELOPMENT BANK HIPC Debt Relief Schedule at Completion Point (in US\$ millions)

#### SENEGAL

Completion Point  
Date: April 2004

Calendar year	TOTAL ADB	TOTAL (ADB/ADF)
2000	3.733198	4.237928
2001	7.185392	8.214275
2002	6.845089	7.929298
2003	3.168061	3.743730
2004	12.972938	14.840481
2005	14.170253	18.048111
Jan-May 2006	6.467833	8.406154
	<b>54.542766</b>	<b>65.419977</b>

#### Summary

Total Nominal Relief	US\$ 65.419977 mn
of which	
<b>ADB</b>	<b>US\$ 54.542766 mn</b>
ADF	US\$ 10.877211 mn
Total NPV Relief	US\$ 56.800000 mn
Duration	7 years

Annex II was revised and should be replaced by the annex below:

**AFRICAN DEVELOPMENT FUND**

**HIPC Debt Relief Schedule at Completion Point  
(US\$ millions)**

**SENEGAL**

Completion Date	Point	Calendar year	TOTAL ADF	TOTAL (ADB/ADF)
April 2004		2000	0.504730	4.237928
		2001	1.028882	8.214275
		2002	1.084209	7.929298
		2003	0.575668	3.743730
		2004	1.867542	14.840481
		2005	3.877857	18.048111
		Jan-May 2006	1.938321	8.406154
			<b>10.877211</b>	<b>65.419977</b>

**Summary**

Total Nominal Relief	US\$ <b>65.419977</b> mn
<i>of which</i>	
ADB	US\$ 54.542766 mn
<b>ADF</b>	<b>US\$ 10.877211 mn</b>
Total NPV Relief	US\$ 56.800000 mn
Duration	7 years

Annex III was revised and should be replaced by the annex below:

### Senegal: Debt Service Profile

(in US\$ million)

Year	Before Debt Relief			Debt Relief			After Debt Relief		
	ADB	ADF	Total	ADB	ADF	Total	ADB	ADF	Total
2000	26.978	3.428	30.407	3.733	0.505	4.238	23.245	2.923	26.169
2001	25.699	3.680	29.379	7.185	1.029	8.214	18.514	2.651	21.164
2002	24.482	3.878	28.360	6.845	1.084	7.929	17.637	2.794	20.430
2003	22.433	4.299	26.732	3.168	0.576	3.744	19.265	3.723	22.988
2004	20.018	4.575	24.592	12.973	1.868	14.840	7.045	2.707	9.752
2005	17.713	4.847	22.560	14.170	3.878	18.048	3.543	0.969	4.512
2006	16.792	4.998	21.789	6.468	1.938	8.406	10.324	3.059	13.383
2007	14.245	5.311	19.557	-	-	-	14.245	5.311	19.557
<b>Total</b>	<b>168.360</b>	<b>35.015</b>	<b>203.375</b>	<b>54.543</b>	<b>10.877</b>	<b>65.420</b>	<b>113.817</b>	<b>24.138</b>	<b>137.955</b>

*Note: The debt relief for Senegal will be delivered over a period of seven years from 2000-2006. The debt relief schedule is short due to the size and maturity structure of the ADB loans. The trend of debt relief is not stable due partly to the suspension of debt relief assistance in the second semester of 2003 and the extension of the debt relief program to 2006. Thereafter (2007), Senegal will assume full payment of its debt service obligations.*

*Total debt relief in nominal terms is now estimated at US\$ 65.42 million as compared to US\$ 64.21 as estimated at decision point. The increase is due to extension of the period of delivery in order to take account of the period for which no debt relief was provided because of suspension of debt relief as Senegal did not reach its completion point as scheduled and it had already benefited from 40% of debt relief in NPV terms during the interim period. Debt relief resumes at the completion point in April 2004 and ends in May 2006.*