

BUFF/ED/08/184

December 17, 2008

**Statement by Mr. Rutayisire on Senegal  
Executive Board Meeting 08/112  
December 19, 2008**

1. Last June, at the time of the first review of Senegal's PSI-supported program, staff drew the Board's attention on a number of challenges facing the country authorities on the fiscal front, including delays in payments to the private sector and potential occurrence of extra budgetary expenditures. Mindful of the need to promptly address such developments, the authorities wasted no time taking necessary steps to reverse them, consistent with Fund advice. Their Letter of Intent (LOI) and the staff report submitted for Board consideration today describe in a detailed manner the numerous reform measures which the authorities have since undertaken in close consultation with staff. Going forward, the authorities are confident that implementation of additional measures envisaged in the program, including those based on the recommendations made by the recent Fund TA mission, will help cope with these challenges and avoid recurrence of similar developments in the future. In particular, they expect that implementation of their action plan will lead to the settlement of payment delays during the first half of 2009 while improvements in the budgetary framework will no longer leave room for extra budgetary spending.

**I. Recent Policy Challenges and Achievements**

2. As acknowledged by the 2006 Ex-Post Assessment of Fund's longer-term program engagement in Senegal, the authorities have traditionally maintained a prudent fiscal policy under Fund-supported programs.<sup>1</sup> And it is not their intention to make an exception in the context of the current PSI arrangement. However, Senegal went through a series of developments over the past few years which strained its capacities and tested its budgetary framework. Like many other members, the country was severely hit by the food and energy crisis which shook the world economy until recently. The steady increases in energy and food prices fueled inflationary pressures and maintained consumer inflation at high levels. Guided by the desire to ease social tension and spare vulnerable households from additional hardship, the authorities' initial policy response included the provision of food and energy subsidies. At the same time, the authorities were to proceed with the implementation of a much-needed infrastructure development program, as they prepared to host the OIC Summit and ambitioned to foster economic activity and create jobs. Moreover, the protracted disruptions in the operations of *Les Industries Chimiques du Sénégal* (ICS), one of Senegal's largest exporting companies, delayed the full recovery of its exports. The revenue losses and

---

<sup>1</sup> SM/06/56

resource needs generated by the food and energy subsidies, temporary tax and customs duty suspensions, disruption in ICS operations, and infrastructure investment contributed to exacerbating budgetary pressures and further delaying the settlement of payments to the private sector.

### ***Eliminating Payment Delays and Auditing Extra budgetary Expenditures***

3. The authorities attach high priority to the elimination of payments delays, as demonstrated by the drastic measures that have been taken as part of the action plan they recently adopted to that resolve. In particular, total spending cuts made by the authorities amounted about 3½ of GDP last month, as the Parliament approved the 2008 supplementary budget. In addition to facilitating the elimination of outstanding bills, this fiscal adjustment helped contain the fiscal deficit which is estimated to be about 3.3 percent of GDP in 2008, amid the current difficult circumstances. On top of the expenditure reductions, other steps were taken by the authorities as part of their action plan to settle payment delays. Among these is the elimination of virtually all food subsidies granted at the onset of the recent food and oil crisis. Specifically, rice subsidies were removed and the temporary duty and tax exemptions on other foodstuffs were rescinded; so was the specific tax on vegetable oil, consistent with Fund advice. Along with the adoption of a new electricity tariff structure, tariffs were increased. In addition, it is the intention of the authorities to eliminate butane gas subsidies next year.

4. With regard to extra budgetary expenditures, the authorities plan to commission an external independent audit to clarify the genesis of these expenditures, as the financial audit inspectorate of the Ministry of Economy and Finance has completed its audit and estimates of extra budgetary expenditures. Such spending will be regularized and cleared only upon their certification by the audit. Two supplementary budgets planned towards the midst and end of next year will help regularize extra budgetary expenditures which will be confirmed by the independent audit.

### ***Advancing the Structural Reform Agenda***

5. The authorities continue to maintain a perfect record of implementation of structural conditionality set forth under the PSI. As was the case for the first PSI review, all structural reform measures agreed for the second review were implemented—albeit with slight delay in implementing the structural benchmark on the elaboration of a program of issuance of government securities. In addition to the abovementioned structural measures, several other steps were taken by the authorities since the first PSI review. In line with the key PSI objectives, decisive actions were executed with the aim at improving fiscal governance and transparency and strengthening public financial and debt management, and . Most notably these include, but are not limited to, compliance with the ceiling on the share of public sector contracts signed by single tender, publication of the list of contracts awarded, strengthening of tax administration, mitigation of a potential adverse impact of the planned special economic zone on tax revenues, improvements in public investment planning and evaluation, and elaboration of a two-year program of issuance of government securities.

### ***Implementing Quantitative Conditionality***

6. The authorities have recently made some noticeable achievements on the quantitative front. In particular, they were able to meet end-June and end-September 2008 assessment criteria related to the basic fiscal deficit and external payment arrears as well as the indicative target on the share of the value of public sector contracts signed by a single tender. However, implementation of other elements of quantitative conditionality proved more challenging. Abovementioned budgetary pressures led to the nonobservance of quantitative assessment criteria related to the budgetary float and domestic arrears and gave rise to extra budgetary spending by some public entities. In addition, successful implementation of the authorities' action plan to eliminate payment delays will necessitate recourse to nonconcessional borrowing. As noted by staff, contracting such nonconcessional borrowing became unavoidable for the authorities in view of the pressing need to revive economic activity through the clearance of payment delays and the unattractive terms under which borrowing from the regional and global markets would have been contracted. We call on Directors to support the proposal to raise the ceiling on nonconcessional external borrowing so as to accommodate the nonconcessional loan which the authorities intend to contract from France.

7. In response to Management's letter on the misreporting, the authorities acknowledged that fiscal data communicated to the staff underreported the end-December 2007 budgetary float and basic fiscal balance, as they did not account for subsequent changes to the Treasury accounts that resulted from revenues and payment orders for 2007 which occurred between the time of data reporting and the June Board meeting on the first PSI review. They have since taken strong corrective actions which will help avoid the recurrence of similar shortcomings in the future, including the discontinuation of Treasury advances, timely closure of the fiscal year, strengthening of the expenditure tracking system, and other measures aimed at improving the planning, monitoring and execution of the budget.

8. In light of the strong corrective actions described above, the authorities request waivers for the nonobservance of assessment criteria on domestic arrears and budgetary float.

### **III. Policy and Reform Agenda under the PSI**

9. Eager to preserve macroeconomic stability and fiscal sustainability, the authorities are determined to build on aforementioned achievements and pursue reforms needed to address recent shortcomings in an effective and lasting manner and make progress toward the PSI objectives.

#### ***Implementing Prudent Fiscal Policies and Strengthening Fiscal Governance and Transparency***

10. They intend to keep the overall fiscal deficit in check through the implementation of

prudent policies. In line with the policy intentions expressed by the authorities during program discussions, the Parliament recently adopted a budget law for 2009 which is consistent with the objective of keeping the fiscal deficit below 3 percent of GDP that year. Going forward, the authorities will continue to abide by their commitment to limit the fiscal deficit to 4 percent.

11. A bulk of the fiscal reforms which are underway aims to improve public financial management so as remedy to current weaknesses in the budgetary framework. The planning, execution, and monitoring of the budget will be enhanced through specific actions scheduled to be taken from early in 2009. Budget preparation from 2010 onwards will be facilitated by the implementation of the timetable and techniques of budget formulation which will be set by a decree to be adopted by early next year. Monitoring of budgetary execution will gain from the restrictions which will be placed by decree on the amount of expenditure carryovers. It will be also facilitated by the manual which summarizes procedures for reconciling data from budgetary and Treasury accounts. This manual was prepared by the authorities in close consultation with staff and published upon its finalization. Furthermore, the planned audit of budgetary management system, SIGFIP, will be also critical to ascertaining that it remains reliable and continues to guide effectively budgetary management.

12. As part of their endeavors to streamline budgetary procedures and improve transparency, the authorities amended public accounting regulations on November 28, 2008. As a result, recourse to exceptional procedures such as the use of treasury advances is now prohibited. Transparency of budgetary procedures will be also served by the decision to finalize and publish detailed budgetary data by April 30. Other measures which the authorities plan to implement to improve fiscal governance and transparency are noteworthy, including the setup of a clear timetable for submitting Treasury accounts to the audit court and the conduct and publication of an audit of government contracts by the end of the first quarter of 2009.

### ***Pursuing Financial Sector Reform and Coping with the Global Financial Crisis***

13. The authorities intend to press ahead with financial sector reforms which they have been steadily advancing. As noted above, the program of regular issuance of government securities was recently developed, and it is the authorities' intention to implement it in an adequate manner. Following the recent enactment of the new microfinance law, the authorities have recently adopted the inherent implementation decree, which runs toward the authorities' broader objectives of improving the supervision of the microfinance institutions and easing credit access for SMEs.

14. To date, the global financial crisis has not had a significant impact on Senegal's financial system. Nevertheless, the authorities will remain vigilant and stand ready to take necessary actions, should the crisis threaten to undermine the health of the system. Along with their regional counterparts, the authorities have adopted during a high-level meeting held early this month in Abidjan a proactive approach to mitigate any potential adverse effects of the crisis.

### ***Promoting Private Sector Development and Strengthening Debt Management***

15. Consistent with previously stated policy intentions, the authorities undertook several reforms aimed at improving the business environment, earning Senegal a position among the five top performers from the World Bank's Doing Business 2009, including the top reformer globally in easing trade. Key measures that were recently implemented include the setup of a fully operational one-stop shop for business creation, streamlining of import and export procedures, introduction of a single window for customs clearance, and significant improvements in infrastructure. Going forward, the authorities intend to pursue reforms aimed at laying the ground for a private sector driven economy, as set forth in their Accelerated Growth Strategy. Planned actions include, among others, the revision of labor market regulations, the simplification of tax procedures, and development of an action plan for improved credit access.

16. Debt management will be a key area on which the authorities plan to put increased focus as they press ahead with their reform agenda and public investment program. In this regard, the authorities are exploring avenues for strengthening debt management capacity and better managing fiscal risks and guarantees. In particular, they have sought technical expertise from the US Treasury in this area and have invited some international rating agencies to assess the level of country risk with a view to identifying the steps that need to be taken to reduce it.

### **ESF Request**

17. As a major oil and food importer, Senegal has experienced a major BOP shock as a result of the recent oil and food price hikes. These hikes contributed to the double-digit annual percentage increases in the country's import bill over the past couple of years. In order to cope with the adverse impact of the oil and food price shocks, the authorities request Fund assistance under a one-year ESF high-access component. Coupled with Fund financial assistance, the recent reversal of various revenue-reducing and costly measures such as food subsidies and temporary tax suspension on some food and energy products will be instrumental in mitigating the adverse impact of the oil and price shocks and thus enhancing the prospects for improving the fiscal position.

### **Conclusion**

18. The authorities look forward to the continuation of Senegal's program relation with the Fund under the PSI and the ESF. As emphasized in the LOI, the PSI remains for the authorities the appropriate vehicle to maintain a close policy dialogue with the IMF, signal commitment to sound policies to the international community, and move the structural reform agenda forward. As discussed below, recent actions implemented by the authorities signal their strong commitment to the program while forward-looking measures which they envisage to carry out provide key assurances that the abovementioned shortcomings will be promptly addressed and their reappearance avoided. In their journey under the PSI, and hopefully the ESF, the authorities will continue to value Fund advice.

19. In light of the above, I call on Directors to support the authorities' request for a one-year arrangement under the ESF, waivers and modification of assessment criteria, and the completion of the second PSI review.