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GRAY/08/4055

December 17, 2008

**Statement by Mr. Itam on Senegal
(Preliminary)
Executive Board Meeting 08/112
December 19, 2008**

1. We support completion of the second PSI review. We are satisfied with the authorities' stern corrective actions with respect to budgetary slippages and delayed payments to the private sector, while noting the gravity of the lapses reported. The commitments to strengthen the public financial management process and prevent a repetition of past slippages and misreporting demonstrate the authorities' determination to remedy the above lapses. We therefore support the request for waivers. We would also like to express our appreciation for the transparency and cooperation shown by the authorities in uncovering these issues, and their expeditious response and strong corrective actions.
2. We have comments on the food and fuel subsidy versus capital expenditures, estimation of terms of trade, domestic arrears, the non-concessional loan, and the request under the exogenous shocks facility.

Food and fuel subsidy/capital expenditure

3. There has been an adverse impact on capital expenditure due to increased spending assigned to managing the effects of high food and fuel prices. However, the authorities' expeditious actions to eliminate or reduce virtually all subsidies are in the right direction to help sustain development efforts. We would appreciate it if the staff could elaborate on whether the plan for expenditure going forward provides adequate protection for long run investment.

Estimation of terms of trade

4. The supplementary tables with details on key prices, as well as an outline of different methodologies, have been very useful and bolster the information provided in the report. We appreciate this, given recent concerns over methods used to make such calculations.

Domestic arrears

5. We note the measures taken by the authorities to normalize financial relations with the

private sector. We encourage them to continue to strengthen their structural reform agenda to address this matter and other issues that will promote the private sector's stability, Senegal's growth, as well as investors' confidence.

Non-concessional loan from France

6. We support the waiver recommended by staff on this non-concessional borrowing, which we understand will shore up the action plan to eliminate payment delays and so help to resuscitate the private sector activity needed for growth. We note furthermore, that without this loan, the necessary financing would not otherwise be available, given current financing constraints arising from the global crisis. Nevertheless, it would have been preferable for the loan to be offered at concessional rates, and this example points to the general unavailability of concessional resources for LICs.

Exogenous shocks facility

7. It is appropriate that the authorities seek access to the exogenous shocks facility, given the strains on the balance of payments. We therefore support the ESF request.

With these few comments, we wish the authorities success.