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December 18, 2008

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

We thank the staff for their sternly-worded report and Mr. Rutayisire for his frank Buff. Clearly, there have been lapses in Senegal's public financial management inconsistent with the standard expected of a member in a PSI. However, to their credit, the authorities have recognized that these missteps were serious and have reacted accordingly.

We noted in the discussion of the Ex-Post Assessment in 2006 that Senegal seems to have a difficult time functioning outside of a close arrangement with the Fund. Sadly, it appears that even with a close arrangement with the Fund, serious administrative errors and policy slippages can come to pass. Transparency is a powerful incentive for better conduct going forward. We therefore thank the authorities for their consent to publish their policy intentions documents and the Fund papers (though doing otherwise would defeat the purpose of a PSI) and urge them to make public the reports on the external audits of extra-budgetary commitments expected by March 31, 2009.

Misreporting

We agree with the staff that the underreporting of the basic fiscal deficit and the budgetary float are serious and large mistakes. We are perplexed that the Senegalese authorities were unable to comply with their own public accounting regulations (EBS/08/147, para. 5). Fortunately, the Minister of Finance has clearly acknowledged the mistakes and their gravity and has communicated openly with Management. The authorities cannot tolerate circumvention of basic financial controls, and it is only appropriate that they are now monitoring payment data weekly and reporting it to Fund staff. In view of the authorities' contrite position on the matter and strong remedial measures, *we can agree with the MD's recommendation that we maintain our assessment of Senegal's performance and support the proposed decision on misreporting.*

Performance under the PSI in the Second Review Period

We are disappointed with the accumulation of CFAF 57 billion in domestic payment arrears and the breaching by a factor of 5 of the ceiling on the budgetary float. The budgetary slippages described in Box 1 (EBS/08/144, pg. 4) are major. Payment delays and uncertainties are weighing on firms and their banks. The nonconcessional emergency loan is regrettable and serves to encourage lenders who are less committed to debt sustainability in former HIPC's; the authorities are right to make paying it off a high priority (MEFP para. 16). We note the shortfall in revenue effort in 2008, due in large part no doubt to the revenue measures in respect of food and fuel. Like Mr. Fayolle, we commend the authorities for having met all structural conditions during the review period.

MEFP for the Third Review Period

Growth assumptions and the macro framework are realistic: moderate growth, with positive local factors offsetting a dismal global outlook, lower inflation and a current account deficit financed by FDI. The deficit target is appropriately adjusted for last year's payment delays (from 4.0 to 3.3 percent of GDP). The MEFP undertakings with respect to eliminating payment delays and slippages, debt management, budget planning, execution and monitoring (including prior actions) are appropriate. We share Mr. Bakker's and Mr. Galac's views that these measures are crucial in both the short and long term. We would caution against excessive reliance (and spending) on commercial debt rating agencies' country risk assessments.

Request for ESF

Requesting an ESF on the heels of a misreporting incident and a weak PSI review is awkward timing. In our view, some of the performance shortfall under the PSI can be attributed to a clumsy initial response to the food and fuel price shock, notwithstanding external guidance and financial support. Mr. Moser and Mr. Weber have pointed out the weaknesses in Senegal's request. However, we are prepared to go along with the majority on this issue because of the repeal of costly untargeted measures, energy sector reform (to date and promised) the pursuit of more-targeted measures, and the small financing gap in 2008 and 2009. *We doubt that a public transportation subsidy or subsidies will be as efficient or well-targeted as alternative transfers, and ask that the feasibility study be reviewed carefully by the Fund and the Bank for its economic and financial implications.*

We urge the authorities to redouble their efforts to improve their performance in the subsequent PSI/ESF review period and encourage the staff to continue to keep careful watch and be appropriately rigorous.