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December 18, 2008

**Statement by Mr. von Stenglin and Ms. Rieck on Senegal  
(Preliminary)  
Executive Board Meeting 08/112  
December 19, 2008**

**We thank staff for the hard work they have put into investigating the incidents now brought to the Board's attention.** We must say that we are very dissatisfied with several aspects of the authorities' program implementation and past policy measures. We appreciate, however, that the PSI has been instrumental in revealing the significant fiscal slippages in Senegal, thereby giving credit to the instrument and especially to the structural component of the program design. The authorities now seem willing to address these slippages and the underlying weaknesses in public financial management, and we take full account of the measures they have implemented already and those envisaged for the future.

**In this spirit, we can go along with the majority on the proposed decisions.** That said, we wish to emphasize that especially on the second PSI review our approval has only come with significant reservations given the size and duration of policy slippages. Only the strong forward-looking component of the program enables us to remain positive about the assessment, and we sincerely hope that the authorities will make proper use of such leap of faith. Further policy slippages would have serious consequences for the completion of the third PSI review thereby jeopardizing the continuing support of the international community.

*Misreporting and second PSI Review*

**The sizeable fiscal slippages that have been occurring during 2007 and 2008, thus leading to the misreporting, are highly regrettable.** We recall that we already had marked reservations about the definition and modification of the assessment criterion on the budgetary float at the first PSI review. At the same time, we are encouraged by the fact that the authorities – with assistance from staff – have been active in investigating these slippages. We appreciate their intention to strive for positive basic fiscal balances for all evaluation periods in 2009. We also note that they plan to settle a considerable part of their payment delays by the end of this year, although latest data leaves some doubt about the feasibility of their target. On balance, we feel that the authorities' remedial measures justify a positive decision on the misreporting incident.

**It is very troubling to learn that since last summer additional and still larger fiscal slippages have surfaced.** We also note that, in addition to the large stock of payment delays, extra-budgetary spending of about 1¼ % of GDP is still to be included in a supplementary budget envelope for 2009. This will further reduce fiscal leeway and make the already ambitious budget targets extremely difficult to meet. On the basis of the backward-looking component, it is very difficult for us to allow the PSI to continue as if nothing had happened.

**On the other hand, we regard the policy framework of the PSI and the intense dialogue that staff maintain with the authorities extremely helpful** in resolving current issues and advancing the authorities' policy program. The strong measures agreed, including the already fulfilled prior actions, provide the opportunity for a policy turnaround. The authorities' commitment to sizeable – and undoubtedly unpopular – spending cuts bode well in this regard. Moreover, we give them credit for their structural program performance.

**We are therefore willing to go along with staff's recommendation to conclude the second PSI review.** We do so under the understanding that the PSI indeed provides a strong leverage to reinforce the authorities' efforts to tackle the serious problems in public financial management. In order to allow us to remain positive on the program in future reviews, the authorities will finally have to show tangible results in the fiscal sector, especially on the spending side of the budget and on internal and external control mechanisms. This will also be instrumental to regaining urgently needed donor support. Going forward, we call on the authorities to implement the recommendations of the recent TA mission in a thorough and timely manner and encourage staff to closely monitor the authorities' progress in this regard. Moreover, we hope that fiscal goals will be reached even if current growth projections turn out to be on the optimistic side. Since strong program performance is of utmost importance, we would welcome, like Mr. Kiekens, *staff comments on the political support the authorities have in particular for their fiscal efforts.*

#### *ESF request*

**We can accept staff's justification for Senegal's access to Fund financing under the ESF** and are prepared to support the proposed disbursement, provided that financing assurances can be ensured. To be clear, we share some of Mr. Moser's and Mr. Weber's concerns. The deteriorating trend in Senegal's current account and the fact that the balance of payments does not significantly improve with abating global price pressures raise doubts as to what extent there has been a "sudden" shock. We also share their view that the authorities' policy response to global price developments has been less than ideal. On the other hand, staff's analysis suggests that global food and fuel prices did have a considerable impact on the country's balance of payments. We particularly welcome the strong quantitative conditionality of the ESF, which is derived from the PSI. Furthermore, the relative low access under the high-access component of the ESF seems appropriate in view of the authorities' need to reinforce their policy track record. It also alleviates our general concerns about disbursing Fund assistance in the face of indiscriminate subsidies which had been in place in Senegal until recently.