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

We commend the Senegalese authorities on the satisfactory progress in implementing the structural reforms set forth under the PSI. Unfortunately, misreporting and major budgetary slippages occurred, resulting in the nonobservance of a number of quantitative assessment criteria for end-September 2008. The authorities' task to strengthen public financial management and continue structural reforms is complicated by the recent exogenous shocks. Against this backdrop, a strong program engagement with the Fund under the PSI remains critical to successful implementation of sound policies and structural reform, as well as securing donor support. We support the completion of the second review under the PSI and the authorities' request for a twelve-month arrangement under the ESF.

The authorities' response to the audit results has been swift and decisive. They have taken strong corrective actions to improve their public financial management systems, 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.

The recent elimination of all food and energy subsidies, except for butane gas, is also commendable. It helps, along with adoption of the 2008 supplementary budget, to create room to settle payment delays. In the long term, Senegal's fiscal sustainability and poverty reduction depend on stronger growth, which requires higher investment in infrastructure. In this regard, we are concerned that the estimated outcome of capital expenditure for 2007 and the projection for 2008 are well below the program targets. We would welcome staff elaboration on how to prevent the burden of fiscal adjustment from falling too much on capital expenditure and how the envisaged substantial increase in capital spending in the medium term can be assured.

Given the impact of the external shock on BOP, we support the authorities' request for a

one-year ESF arrangement, although we hope the pressure will be less significant with the decline in import bill in 2009 as oil and food prices stabilize at a lower level than in 2008 and as domestic demand weakens.

We are sympathetic with the authorities' borrowing nonconcessional loans to finance the domestic arrears. While we welcome the flexibility, we wonder whether such flexibility could have been built into the program in advance.