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GRAY/08/4118

December 18, 2008

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

While we welcome that all structural conditionality has been met for this review, we have serious concerns about the decisions we are invited to take, both in terms of the Senegalese performance under the PSI and in terms of broader aspects with regard to the PSI and the ESF.

Misreporting and the second PSI-review

The budgetary slippages are quite significant and the undesirable tail-effects of arrears and the resort to non-concessional lending demonstrate in our view the importance and necessity of more coherent fiscal policies.

Staff has made impressive efforts to design a package that should hopefully prevent the misreporting and the budgetary slippages from occurring in the future. Nevertheless, we still have our doubts if the package, and the measures taken by the authorities so far, will achieve this.

- First, **new regulation will in itself not solve the problem, if it is not respected**, as was the case behind at least some of the misreporting. While we note that the PSI will now include structural Assessment Criteria in this regard, it is to our mind very regrettable that such criteria should be necessary.
- Second, **the true commitment of the authorities to correct the mistakes is in our view brought into question**, inter alia, by the fact that 2007 payment orders were still issued in November 2008, despite the results of the audit report in August, discussions with staff on these matters in October, and the dismissal of the budget minister in August.

We are also very concerned about the implications for the PSI more generally, as **the conclusion of the second review will not be a signal of strong policies**, but at best of strong corrective measures to prevent future occurrence of conduct that were far from compatible

with the intensions of the PSI. Likewise, we find it very hard to “maintain a positive assessment” of past program-performance, but we understand from staff that there are no other options if the Board would still want to move forward. This is a matter that we definitely should revert to in the forthcoming review of the PSI. As a related point, we would like to emphasize that our donor authorities share staff’s conclusion regarding the usefulness of the PSI’s fixed review cycle.

We can reluctantly go along with the proposed decisions on staff’s assurances that by doing so, the Fund could make an essential positive contribution to future policy conduct in Senegal. We trust that staff has found the right balance when recommending the proposed decisions. The prior actions, including the tightened fiscal policy and the permanent elimination of the use of treasury advances, as well as the fulfillment of all structural performance criteria help to defend this standpoint. However, we warn that conditioning donor support directly to the conclusion of program reviews risk undermining the signaling effect the review was intended to bring, though we acknowledge the contributions the PSI-program played in bringing the problems to the fore.

The request for access under the Exogenous Shocks Facility

We can go along with the request for ESF-resources, though we share many of the points raised by Mr. Moser and Mr. Weber. We appreciate the supplemental information provided by staff - both with regard to the assessment of the balance of payments impact as well as the elaboration on the requested amount - as it was hard to consider the request for ESF-resources on the basis of the rather scarce information in the staff report.