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December 18, 2008

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

We thank staff for their comprehensive report and Mr. Rutayisire for his insightful Buff Statement. It is regrettable that, on this second review of the PSI, we have been confronted with two serious misreporting cases. We agree with staff that those cases are not considered to be *de minimis*. We particularly note that the end-December 2007 assessment criterion on the basic fiscal balance, upon which completion of the first PSI review was conditioned, was not observed. Therefore, the first review of the PSI was completed based, in part, on inaccurate information within the terms of the PSI misreporting framework.

In developing countries, where management capacity is many times very weak, unintentional misreporting situations can happen. However, in the case of Senegal, we take note from staff that the assessment of the Fund's TA mission on PFM (arranged to provide a diagnostic of the budgetary slippages and recommend remedies) stressed the generally satisfactory budgetary, legal, and regulatory framework; the good quality of the Ministry of Finance staff; and the well-developed capacity for macroeconomic and budgetary analysis.

We note from the staff report that corrective PFM measures were already undertaken by the authorities including the dismissal of the person responsible for such misreporting cases. Therefore, we can support the continuation of the PSI arrangement. A successful PSI arrangement is vital for the financial and economic stability of Senegal.

The Staff rightly assesses the recent economic performance under the PSI as mixed. We commend the authorities for complying with the challenging structural reforms program, but the breach of three quantitative assessment criteria is worrisome. We note that the Senegalese authorities have already discontinued the Treasury advances (one of the root causes of the budgetary slippages, which was set by staff as a prior action) and implemented the other two important prior actions. On the nonconcessional loan, in general we can accept a flexible approach provided that three criteria are met: (i) non availability of concessional financing; (ii) maintainance of debt sustainability, and (iii) growth-promoting potential of the project financed *and/or* risk of economic and financial disruption. Therefore, and taking into account that the growth-promoting potential of the project financed does not directly apply to this specific case, we believe that these criteria have been met. Using the same terminology as staff, i.e., "on balance", we support the completion of the second PSI review.

On the request for a (slight) high-access-component ESF arrangement, we can go along with it in light of a judgmental assessment, taking into account all relevant factors, of the sudden nature of the shock and taking into account the overall balance of payments need. Therefore, we support the ESF request. Notwithstanding our support, we raise the following issues.

We note that staff considers (box 5) that the impact of the food and energy price surge is 5.2 percent of GDP. *We question with what should we compare this figure?* This figure assumes the 2008 prices and 2007 volumes. Therefore, this figure does not reflect income and substitution effects, and certainly does not present an actual financial need. We note and welcome the staff's subsequent clarifications on this issue.

If staff considers that the impact of the shock is 5.2 percent of GDP, why is the requested ESF financing only 0.5 percent of GDP? With this question we are not saying that we are supporting a higher ESF financing, *but we would like to learn from staff the reason for the specific figure requested. And if after the ESF financing there will be a need that will have to be fulfilled through nonconcessional financing, why isn't the country requesting higher support through the ESF in order to lower the need for a nonconcessional loan?*

To conclude, like staff, "on balance", we support all the proposed decisions and urge a strong commitment and ownership from the authorities to the economic program. We invite the international community to support the authorities' efforts and wish the authorities success.