

The contents of this document are preliminary and subject to change.

GRAY/08/4126

December 18, 2008

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

We thank the staff for describing the complicated case of Senegal's performance under the PSI frankly and objectively. The second PSI review is marked by the significant budgetary slippages, the need for three waivers on assessment criteria and the related misreporting. However, it is recommended that the Board maintain a positive assessment of Senegal's past performance and conclude the second review. The recommendation is based on "the authorities' explanations, remedial measures and the difficult economic and financial situation facing the country" (EBS/08/147, para 16).

The type and the extent of budgetary slippages is disappointing. We note that there were no problems with fiscal accounting under the previous PRGF. Besides, the TA mission confirmed the generally satisfactory budgetary legal and regulatory framework, as well as the well-developed capacity for economic analysis. It brings us to the conclusion that it is the lack of discipline rather than the lack of ability to implement the economic program that led to the misreporting case, which is regrettable. We are also confused by the fact that even after the bad practice had already been identified by the staff, the authorities continued issuing 2007 payment orders until November 2008. We could not find a sufficiently clear explanation for that. There are some other problems in program implementation that complicate the completion of the current review. In particular, the issue of extrabudgetary spending is not new and was brought to the attention of the authorities at the time of the first PSI review. In the absence of decisive measures to regularize this practice, extrabudgetary spending continued with unclear terms and conditions. Overall, with the main focus of the PSI being on fiscal sustainability, governance and transparency, the major slippages in these areas make maintaining a positive assessment of Senegal's past program performance very difficult.

We are particularly uncomfortable with the last argument put forward to explain the need to maintain a positive assessment. The logic that a positive assessment should be maintained

(and the second review should be completed) because “several donors have made their disbursements contingent upon completion of the second PSI review” and, thus, its non-completion may cause significant problems for Senegal is clearly questionable. Such an approach undermines the credibility of the Fund’s involvement under the PSI and eventually does not give the donors confidence that their funds provided to the country in the form of budget support will be used properly. We believe that the assessment of the PSI program should meet the same high standards as the Fund’s financial arrangements and wonder whether the recommendation would be the same if the completion of the review was to be followed by a disbursement of the Fund’s resources.

In view of the above, we wish to be recorded as abstaining on the decision to complete the second PSI review.

We also find it difficult to support the high-access ESF arrangement because the latter is expected to be based on a UCT-quality program. In our view, the fundamental policy slippage experienced by Senegal requires building a track record of accurate budget reporting and implementation to bring the PSI back on track and prove the authorities’ capacity to implement a UCT-quality program.

Therefore, we also abstain on the approval of the ESF arrangement.

Finally, we share concerns expressed by a number of Directors with regard to Senegal’s eligibility to the ESF on the basis of the existing BoP need.