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December 18, 2008

**Statement by Mr. Nogueira Batista, Mrs. Joseph, and Ms. Florestal on Senegal (Preliminary)**
**Executive Board Meeting 08/112**
**December 19, 2008**

We thank staff for a detailed set of papers and Mr. Rutayisire for his Buff statement.

Senegal is experiencing a very challenging year, like many other economies. The prevailing gloomy global environment has not yet had a major impact on the economy. However, internal weaknesses, which led to budgetary slippages as reported by staff, are having a decidedly negative impact on the economy as domestic arrears have inhibited private sector activity, endangering the banking sector, affecting government tax revenues and compromising external support. At the same time, the steep rise in food and fuel prices has put upward pressure on inflation and worsened the external current account deficit. On a positive note, all structural conditionalities were met while three out of five quantitative assessment criteria were observed, according to staff. In addition, the authorities have moved expeditiously to liquidate the unsettled debt (which is related to the missed ACs) and ensured that the extra budgetary spending does not recur in the future.

In light of the strong corrective measures, the strength of the prior actions and of program conditionality for 2009, we support the request for waivers and modification of assessment criteria as well as the proposed decision to complete the second review of the PSI. We also support the ESF arrangement.

We underline that consideration of Senegal's request for an ESF with the active PSI is only possible because of the recent reform of the ESF. Nonetheless, we question the low level of access considered under the HAC (30 percent of quota) and the phasing into two equal tranches. The amount considered is only five percent of quota above what could have been obtained under a RAC with no UCT conditionality and covers only a minor portion of the shock: 0.5 percent of GDP against a total impact of the food and fuel price shock estimated by staff at 5.2 percent of GDP. Even if with the PSI, Senegal is subject to UCT conditionality, the country is not being given the access level that could be associated with such a requirement. It seems that Senegal is being penalized for the misreporting issue. The PSI's conditionality has been strengthened in order to prevent renewed fiscal slippages. Moreover, in conformity with the governing rules of the modified ESF, measures that directly address the shock have also been added, including a list of prior actions.

We welcome the tighter budget for 2008 and 2009 and the measures being taken by the authorities to clear all unpaid bills by the first half of 2009, including the non-concessional borrowing from France. At the same time, we are pleased to see that the authorities remain committed to safeguarding priority spending. We endorse their intention to request technical expertise from the World Bank to improve the efficiency of social sector spending, as the areas identified (e.g. health, education, rural water works and sanitation) are critical to achieving the Millennium Development Goals. Moreover, the quicker the issues of the slippages and misreporting are resolved, the faster the government can return its complete focus to implementing the four pillars under the PSI in order to ensure economic sustainability and reduced dependence on foreign assistance.

The chief role of the PSI is indeed one of "signaling" as it is indispensable to reassure the private sector and catalyze donor assistance. On the other hand, the ESF in this case is mainly supposed to provide some balance of payment relief and thus decrease the external financing constraint even if the amount of the support also constitutes a signal. The dearth of the Fund's financial support becomes more evident when it is evaluated against staff's own assessment that financing conditions are adverse and that fresh financing could dry up for Senegal. In the report, staff affirms that the effects of the global economic and financial crisis may be felt in the months ahead through various channels including remittances, FDI and exports. In case this less optimistic scenario prevails, what could be envisaged for Senegal? We stand ready to consider an augmentation under the HAC if warranted and we urge donors to unfreeze budget support in line with the authorities' efforts to ensure a successful implementation of the financial program and structural measures retained.