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

The staff report reveals the discovery of 5 percent of GDP in payment arrears and extra-budgetary expenditures, including significant extra-budgetary spending through end-October 2008. This is a major disappointment that overshadows the otherwise strong performance on the structural front that Senegal has accomplished under its PSI.

We acknowledge that the authorities have taken substantial corrective measures, and that they have agreed with the staff on significant actions for future implementation. It appears that the authorities have been seized with the importance of prompt action in order to meet the fixed review of the PSI. Reflecting on Senegal's track record of mixed performance with its PRGFs, where reviews could be delayed for considerable time, we are impressed with the authorities' timely response.

Nonetheless, as Messrs. Kishore and Choudhary, we have the impression that the linkages between donor support and a successful PSI review have put the staff under too strong a pressure to accept what could be done within the fixed time period for the review. Critically, we have the authorities' commitment to an Action Plan for improving public financial management, including an audit of all extra-budgetary expenditure, but monitorable performance on this plan will need to wait. In the absence of time pressure to conclude the review, we believe that staff would have expected a more sustained demonstration of performance from the authorities. The importance of donor disbursements, made contingent upon successful completion of the review, creates at least the perception that the Fund's independent assessment has been influenced.

We therefore wish to be recorded as abstaining. With this said, we reiterate our strong support for the authorities' candid recognition of their lapse, and their efforts to rectify the breach. There is still much left for the authorities to do to recapture trust, and many Directors are clearly of the view that this is the last opportunity for Senegal to have the benefit of the doubt. We have every expectation of being able to approve the next review of the PSI, assuming steadfast implementation of commitments however, and we wish the authorities success.

Experience with this case will certainly inform the Board's subsequent policy discussion on the pros and cons of the fixed review period of the PSI. Our conclusion thus far is that the fixed review period has actually served its purpose in motivating superior performance. However, it will be imperative that the Board ensure that the standards of "upper credit tranche" in the PSI are not compromised by pressure for a positive time-bound review.

### **Exogenous Shock Facility**

We can support the use of the ESF, although we have sympathy for the views of Messrs. Moser and Weber. Senegal has witnessed a deterioration in its external accounts, particularly in comparison with the staff projections at the time of the first review. The balance of payments, previously projected by the IMF staff to record a surplus of 2.5 percent of GDP in 2008, is now forecast to be slightly in deficit. Remittances are forecast to decline and foreign direct investment inflows, although higher than in recent years, are also lower than previously forecast for both 2008 and 2009. This is a much more nuanced set of circumstances than the request for response to food and fuel shocks would suggest.

Indeed, Senegal has run large current account deficits for a number of years, and we share the question of Mr. von Stenglin and Ms. Rieck on whether a "sudden" shock dominates the BOP. The widening of the current account deficit by 1.6 percent of GDP in 2008 was almost entirely financed by an increase in FDI flows, so that the IMF staff forecast a balance of payments deficit of only 0.5 percent of GDP in 2008. For 2009, the Staff Report forecasts a balance of payments surplus of 1.4 percent of GDP, and for reserves to almost fully recover to their 2007 level, even without the ESF. Senegal's international reserves will now increase from a relatively comfortable 3.2 months of imports.

Policy for the ESF is explicit that "shocks arising from shortfalls in aid or domestic policy slippages would not be covered". As Messrs. Horgan and Ladd, we note that requesting an ESF on the heels of a misreporting incident and a weak PSI review is awkward, and contributes to the impression that the ESF disbursements are utilized to compensate for previous fiscal weakness, as at least some of the fiscal slippage under the PSI can be attributed to an initial response to the food and fuel price shock that departed from the Fund's advice. As Messrs. Lee and Duggin, the forward-looking case for Fund support appears to rest more on the conditions that donors have placed on providing budget support for the purpose of clearing domestic arrears.

Finally, we thank the staff for their supplement to better document the impact on the balance of payments. We do not believe, however, that the staff's preferred measure of the exogenous shock for ESF purposes -- of a hypothetical assumption of constant import volumes -- is useful as a justification for balance of payments financing. A more straightforward identification of the factors we noted above would have strengthened the staff's justification. It was our view that the ESF is not a compensatory vehicle for negative shocks in isolation, but rather a means to help offset, with adjustment, overall deterioration in the external accounts as we believe exists in this case.

Directors' views on the first wave of ESF cases, whether RAC or HAC, show that there is not yet full consensus at the Board on how the ESF should be used. More thought will be necessary.

**External Debt/Fiscal**

One consequence of the fiscal slippage is the accumulation of CFAF 57 billion in domestic payment arrears, which are now impacting economic activity of suppliers and their banks. A bilateral creditor has agreed to provide a loan to help clear these arrears, which will be repaid from asset sales. The staff have accepted that the terms of this loan will be nonconcessional. We recognize the special circumstances of this credit, and do not see immediate danger to debt sustainability. Like Messrs. Lee and Duggin, however, we worry whether the staff's acceptance of nonconcessional terms could undermine discipline of lenders who are less committed to debt sustainability in former HIPC. We would disagree with the suggestion by Mr. He and Ms. Liu that flexibility for non-concessional borrowing could be built into the program in advance. The Senegalese authorities are correct to make prompt repayment of the loan a high priority.