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December 18, 2008

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

We regret to learn of the case of misreporting in relation to fiscal slippages. Although we appreciate the authorities' future commitment toward reforms in this area, we believe that not only commitments matter. Indeed, the prospects for an actual positive outcome matter, too, in order to garner a positive evaluation by the Board.

Also, we are not comfortable with the way in which the proposed decisions were presented to the Board. As a matter of fact, all of the critical issues—i.e., the misreporting, the Second Review under the Policy Support Instrument (PSI) and the request for access under the Exogenous Shocks Facility (ESF) (each of which respectively requires sincere and independent judgment)—were presented in an intertwined package making the Board's judgment on one of the components affect its consideration of the others. Needless to say, since the Fund must maintain evenhandedness in its activities, each of its assessments, inevitably, will establish a "case law" for latter cases. Thus, we must be careful not to create assessment inconsistencies, such as establishing differences between cases with a single component and a package of components.

Our views on the specific issues are the following:

Misreporting

We welcome the staff's fact-finding exercise and the authorities' cooperation. Having said that, since the Fund expects signaling effects from the PSI, ensuring independent and impartial assessments by the Fund is extremely important in order to maintain the Fund's credibility. Given that the Second Review of the PSI entails waivers for significant fiscal slippages, in order to agree to such waivers, we would like to be more convinced of the strength of the authorities' corrective actions and their future commitment. *We would welcome the staff's further elaboration on this issue.*

The Second Review under the PSI

We welcome that Senegal observed all the structural conditionalities. However, it is regrettable that we find that four assessment criteria in the fiscal area were missed, despite the fact that fiscal policy is the center of the authorities' economic program supported by the PSI. Given that the staff often have been critical of nonconcessional loans in the case of several African countries, *we would welcome the staff's further elaboration on the background of their stance of welcoming nonconcessional borrowing in the current case. We would also like to ask the staff to elaborate on the reason why the assessment criterion on nonconcessional borrowing is presented simply as "met" (as per Table 8, page 33 of EBS/08/144), even though the Board is now asked to waive this missed assessment criterion.*

Request for the Exogenous Shocks Facility

Although we agree that the deterioration in the current account reflects balance of payment difficulties (i.e., the basis for granting ESF requests), we cannot deny the risks faced by the Fund in starting the disbursement under the ESF, especially when the legitimacy of granting the ESF relies partially on the country's performance of the program supported by the PSI, which risks being cancelled as a result of the Fund's sincere and independent assessment.

Additionally, it is difficult to monitor implicit income transfers among various lenders. Needless to say, since all Board members are accountable to their constituencies' taxpayers, we believe it is a basic duty of the Board to thoroughly examine how the taxpayers' money, entrusted to the Fund, will be used. In this regard, over the long run, honest Board discussions are critical toward maintaining people's support to the Fund. To this end, since Japan has been a major donor of lending and subsidy resources for the PRGF-ESF Trust, given our fundamental duty to be accountable to our taxpayers, *we would like to ask the staff to further elaborate on the risks that accompany such lending into fiscal slippages.*

With these comments, we still support the authorities' commitments toward reform and wish them success in their future endeavors.