We agree with the assessment of the political, economic and social situation in Senegal: relatively high political stability, success in economic reforms mainly since 1994 and hence improvements in key economic data, yet many remaining hurdles for private investment especially in the dirigiste public sector and the regulatory framework conditions as well as relatively low social indicators. We also appreciate the candor of the document with respect to questions of good governance, the consultative process and the sociological studies on which this CAS is based.

We fully support the suggested deepening and widening of structural adjustment and the intended reforms in the education and health sectors. Although we believe the descriptions in this area has a somewhat overly optimistic bias (i.e. an agreement on a strategy in the agricultural sector is - to our knowledge - not yet in sight) we agree that progress in structural reforms in central areas as the energy sector, agriculture and reorientation towards primary education will be crucial and key benchmarks for measuring the governments reform commitment.

All in all we fully support this CAS. We have some additional comments and questions that staff might want to comment on during the Board meeting:

- The base case lending scenario is indeed very ambitious. While actual commitments in the years 1995-97 rose to US$ 300 million (from a base case of US$ 200 million), the base case now foresees US$ 540 million for 1998-2000, more than twice the volume of the last CAS. We would like to have some further explanations for this large increase. As mentioned above, the adjustment must continue, but we wonder whether the mixed results of the past and the risks mentioned in the CAS warrant such a large increase. Even the low case foresees more (US$ 275 million) than the last base case. We wonder whether that will not effect the governments own financial commitments and the fiscal consolidation efforts.
- Again, we appreciate the candor with respect to the public sector and good governance, but it is our opinion that the strategy is somewhat passive and reluctant i.e. in the area of civil service reform. In our opinion the urgent need for civil service reform could have been incorporated much more explicitly. We would have liked to have seen an agenda for an ongoing dialogue between the Bank and the Senegalese authorities on this issue.

- We thank staff for the clarification that in order to remove a major obstacle to private sector growth it is mainly intended to remove distortions with the overall objective to lower factor costs.

- With regard to the hydroelectric power project of Manantali we find the text to be unnecessarily defensive (para 23) when it comes to the participation of the Bank. The positive effects of this investment for the economic development of Senegal could have been highlighted a little more. Also, surprisingly, there is no apparent link in the text between Manantali and the planned adjustments in the energy sector.