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POLICY BRIEF

FIXING THE WATCHDOGS

FOUR REFORMS TO PREVENT THE NEXT HIDDEN DEBT CRISIS*

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Key takeaways

- Senegal's US$13.3 billion hidden debt (approximately 8.1 trillion CFA francs, or 25% of GDP) accumulated over five years under active IMF surveillance without detection.
- Responsibility is shared: Senegalese officials who falsified records; the BCEAO (Central Bank of West African States), which did not reconcile the CFA franc-denominated bank debt;, and the IMF and World Bank, whose surveillance architecture could not recognize what their own data were showing.
- Most of the hidden debt consists of CFA franc-denominated bank loans, not Eurobonds. The Debt Sustainability Framework (DSF) was never designed to track domestic bank debt or derivative exposures.
- Four reforms are proposed: three for prevention (mandatory automated reconciliation, statistical anomaly screening, shared accountability for surveillance failure) and one for remediation (operationalizing the odious debt doctrine for the population already harmed).
- These reforms draw on existing tools: the World Bank's reconciliation platform (piloted in Indonesia), standard corporate risk management practices, and the Global Sovereign Debt Roundtable's own recommendations.

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Acronyms

BCEAO	Central Bank of West African States
DSF	Debt Sustainability Framework (IMF-World Bank)
IDS	International Debt Statistics (World Bank)
IEO	Independent Evaluation Office (IMF)
LIC-DSF	Low-Income Country Debt Sustainability Framework
MTDS-AT	Medium-Term Debt Strategy Analytical Tool
PEFA	Public Expenditure and Financial Accountability
WAEMU	West African Economic and Monetary Union

The Problem

While under active IMF surveillance, including Article IV consultations, a resident representative, and a US$1.8 billion lending program approved in June 2023, the Senegalese government amassed US$13.3 billion (approximately 8.1 trillion CFA francs) in unreported sovereign liabilities between 2019 and 2024, equivalent to 25 percent of GDP. The head of the IMF's own mission declared that he had "never seen hidden debt of this magnitude" in Africa[1].

The scale is astounding. The Senegal case is six times larger than Mozambique's Tuna Bonds scandal ($2.2 billion, 2016), which was previously the indicative case of African hidden sovereign debt. A similar pattern has been observed in the institutional response: IMF suspension, rating downgrades, and accountability directed exclusively at the debtor government. The question of why the monitoring system could not identify the concealment – left unresolved after the Mozambique scandal – remains unanswered.

Devastating effects have resulted. S&P has downgraded Senegal to CCC+ on both its ratings with a negative outlook. Debt service was revised to $9.7 billion for 2026, while the debt-service-to-revenue ratio reached 111% in 2025. Gross financing needs for 2026 are 29% of GDP. Eighteen million Senegalese face austerity for liabilities of which they were previously unaware.

Responsibility is shared, not singular. While the previous administration's intentional misreporting was the direct reason, Senegalese officials falsified records over five years. The BCEAO did not reconcile the CFA franc-denominated bank loans that constitute most of the hidden debt. In addition, the IMF's Debt Sustainability Framework (DSF) was architecturally incapable of identifying concealment. Since IMF staff populate the DSF templates using data provided by national authorities, and while the system verifies the arithmetic, it does not cross-reference debt figures across sectors or against creditor records. The purpose of the data manipulation was not solely to secure a favorable debt sustainability rating – it was to make the overall macroeconomic and fiscal narrative more credible to stakeholders, including the IMF Board, creditors, and domestic constituencies. The LIC-DSF does include domestic public debt in its overall assessment, even though its risk ratings are anchored on external debt; the core problem is analytical granularity, not exclusion. The spreadsheet generated a "moderate risk" rating when Senegal submitted fraudulent figures. The arithmetic was correct, but the input data were false.

The Evidence: Warning Signs in Plain Sight

Most of Senegal's hidden debt consists of CFA franc-denominated bank loans from regional and commercial lenders, not Eurobonds. The CFA franc bank debt is harder to track. It does not appear in international exchange filings, and the DSF does not systematically capture it. According to a December 2025 analysis by the Finance for Development Lab, unreported disbursements on projects funded by external partners accounted for almost 40% of the hidden external debt, with $2 billion of the $5.5 billion

[1] Court of Auditors of Senegal (2025); IMF Press Release No. 23/239 (June 2023); IMF Press Release No. 25/77 (March 2025).

accounted for almost 40% of the hidden external debt, with $2 billion of the $5.5 billion shortfall coming from bilateral funding. The remainder, and a larger share of the domestic component, was CFA franc bank debt.

Multiple independent indicators, all available to IMF and World Bank staff, pointed to the same conclusion.

Table 1: Independent Warning Indicators Available Before Program Approval[2]

Indicator	Finding
Commitment-to-disbursement gap	84% vs. 51% of GDP (33 pp gap) – 3rd highest globally
Debt Reporting Heat Map (2020)	7 red scores out of 9 – near-worst on every dimension
PEFA assessments (2019, 2024)	"Systemic weaknesses in public accounting and financial reporting"
Oil revenue vs. IMF projection	$200M reached the government, vs. $4B generated by the Sangomar oil field
Result	**$1.8 billion lending program approved in June 2023 on fraudulent data**

Before the lending program was approved, the World Bank and IMF staff had access to each of these indicators. The commitment-disbursement divergence alone should have triggered a mandatory investigation. No alarm was raised.

The oil revenue gap highlights a second failure. In March 2026, the CEO of Petrosen disclosed that only $200 million of the $4 billion generated by the Sangomar oil field reached the government (Petrosen holds 18%; cost recovery is 75%). The IMF built sustainability projections on gross revenue assumptions without examining the contract structure.

The case of Senegal is not unique. Table 2 identifies a number of comparable recent cases, each of which are detectable through systematic reconciliation.

Table 2: Comparable Hidden Debt Cases

Country	Hidden Debt	Period	Detectable via Reconciliation?
Mozambique	$2.2B (Tuna Bonds)	2013 - 2016	Yes – loans guaranteed but not reported
Pakistan	Off-budget State Bank borrowing	2020 - 2022	Yes – domestic debt not fully reconciled
Ghana	Energy sector liabilities	2015 - 2019	Yes – contingent liabilities missed
Chad	$1B Glencore loan	2013 - 2018	Yes – creditor records existed
Senegal	**$13.3B across instruments**	**2019 - 2024**	**Yes – IDS data showed a 33-pp gap**

There is a clear pattern of systematic neglect. In every case, reconciliation with creditor records would have exposed the concealment. In every case, such reconciliation was not performed. This is consistent with broader research: Horn, Mihalyi, Nickol, and Sosa-Padilla (2024) document some US$1 trillion in cumulative hidden debt revelations across 146 countries over 50 years, finding that underreporting is systematically upward-biased and that hidden debts are most likely to be revealed during crises – precisely when they do the most damage. The IMF and World Bank's own joint note on

[2] Finance for Development Lab (2025); https://findevlab.org/what-we-learn-from-the-new-international-debt-statistics-on-the-hidden-debt-of-senegal/
World Bank Debt Transparency Report (2024); https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report/2024
PEFA Framework assessments (2019, 2024); https://www.pefa.org/assessments
Petrosen CEO public disclosure (March 2026). https://thetricontinental.org/newsletterissue/senegal-debt-imf/

public sector debt definitions and reporting (2020) acknowledged that DSAs "do not clearly and routinely assess the degree of confidence staff have in the data on which their analysis is based".[3]

Why The System Could Not Catch It

To understand why the detection failed, it is necessary to understand how the surveillance system operates. The process has three phases, and successive phases each depends on the outputs of the previous one. The first phase is thus the initial and decisive point of failure: it depends entirely on government-provided data. There is no independent verification node in the entire loop.

- **Phase 1 (IMF-led):** The World Bank maintains a Debt Sustainability Framework Excel template with 86 sheets, 45 of which are hidden. The IMF staff populate the template using debt data requested from and provided by the national authorities. They then review the internal consistency of the numbers: do the flows add up to the stocks? Are growth assumptions within plausible ranges? However, the review does not cross-reference debt flow and stock figures across the debt analysis, public finance, financial sector, and external sector accounts – discrepancies that a rigorous surveillance process should catch. The template validates the arithmetic. The staff review validates plausibility. Neither validates correspondence to reality.
- **Phase 2 (World Bank-led):** The DSF risk rating feeds into a second Excel template, the Medium-Term Debt Strategy Analytical Tool (MTDS-AT, 22 sheets), which runs Monte Carlo simulations and cost-risk optimization across four borrowing strategies. This is genuinely sophisticated analysis. However, it operates entirely within the DSF's constraints, using the same unverified baseline data provided in Phase 1. Sophisticated optimization built on fraudulent inputs produces sophisticated failure.
- **Phase 3 (Government-led):** Senegal's government prepares an official Medium-Term Debt Strategy (MTDS) document, also called Stratégie de la Dette à Moyen Terme (SDMT), based on Phase 2 outputs, annexes it to the national budget law, and submits it to Parliament. Most parliamentarians lack the technical expertise to scrutinize the document, and the technical sophistication of the MTDS analysis gives the strategy an appearance of rigor that masks the fraudulent inputs underneath.
- **The closed loop:** The debt data flows from the government into Phase 1, through Phase 2, and into Phase 3, which authorizes new borrowing, thus feeding back into a new Phase 1. No institution independently verifies the data. This is a classic case of diffusion of responsibility: each institution assumes someone else is performing verification. The commitment-disbursement gap was evident in the World Bank's own International Debt Statistics – within the same institution that maintains the MTDS tool – but with different teams, and no automated cross-referencing.

[3] Horn et al. (2024), 'Hidden Debt Revelations,' World Bank Policy Research Working Paper 10907; IMF & World Bank (2020) Public Sector Debt Definitions and Reporting in Low-Income Developing Countries (Policy Paper No. 2020/005). https://doi.org/10.5089/9781513529905.007. https://ieg.worldbankgroup.org/evaluations/world-banks-role-and-use-low-income-country-debt-sustainability-framework/chapter-4

[4] https://www.imf.org/external/pubs/ft/dsa/lic.htm https://www.imf.org/external/pubs/ft/dsa/templ/dsatemp.xlsm

[5] https://www.worldbank.org/en/programs/debt-toolkit/mtds

The Accountability Gap

When the hidden debt was revealed in late 2024, the institutional response followed a predictable asymmetry. The IMF suspended its program. S&P downgraded Senegal to CCC+ on both ratings. The government shifted to borrow short-term from regional WAEMU markets at rates above 7%, increasing the risk that it cannot refinance when those loans come due. All of these repercussions fell on Senegal, particularly on the present administration that revealed the fraud, and on 18 million people who were not involved in its concealment. On the other hand, the three institutions whose oversight failed – the BCEAO, the World Bank, and the IMF– face no formal accountability. No independent review of any institutional failure has been announced. Whether the failure was purely structural or reflected institutional reluctance to scrutinize a flagship program in the country remains an open question. Only an independent review can answer this question, and as of now, no review process has been announced. In other words, the IMF wants Senegal to make fiscal adjustments, but is yet to look into why its own system did not work.

Civil society organizations in Senegal have invoked the doctrine of odious debt, arguing the hidden portion should be classified as illegitimate since it was contracted through fraud, without democratic oversight, and in violation of WAEMU transparency laws (Law 2012-22). The Senegalese population was never informed that these debts were being contracted in their name, and has no mechanism to access information about sovereign borrowing in real time. This accountability asymmetry is structural: when surveillance failure and sovereign misreporting coincide, the debtor population bears all costs, while institutions face none.

Four Reforms: Prevention and Remediation

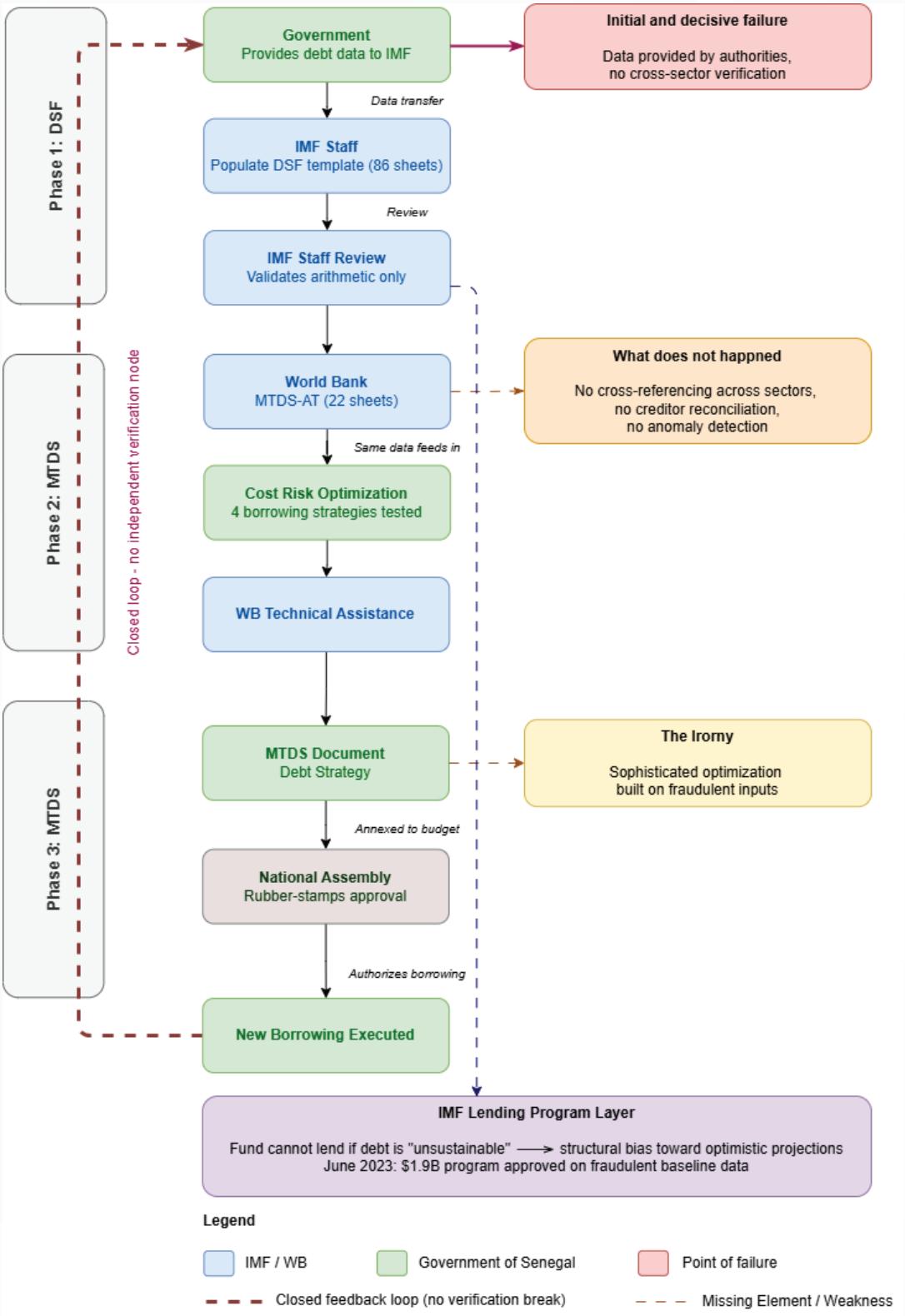
The first three reforms address prevention. The fourth addresses remediation for those already harmed. Both tracks are necessary.

Reform 1: Mandatory Automated Creditor-Debtor Reconciliation

- **What:** Require automatic cross-referencing of debtor-reported disbursements with creditor-recorded exposures for all countries under IMF surveillance, including domestic currency debt held by regional central banks.
- **Why:** If Senegal's reported disbursements had been automatically compared with what bilateral and multilateral creditors recorded as disbursed – and with BCEAO records of regional bank lending – the $5.5 billion external gap and the larger CFA franc domestic gap would have been visible within a single reporting cycle.
- **Precedent:** The World Bank's Automated Creditor/Debtor Loan Reconciliation Platform[6] has been piloted by Indonesia since 2025, funded by the Japanese Ministry of Finance, with data links already active. The Global Sovereign Debt Roundtable's 5th Co-chairs Progress Report (October 2025) endorsed extension to all G20 creditors. The technology exists and works. What is missing is the mandate, and its extension to cover CFA franc bank debt and derivatives such as total return swaps, which currently fall outside the DSF's coverage.
- **Implementation:** Integrate reconciliation into the DSF workflow as a mandatory precondition for risk rating production. Discrepancies exceeding a materiality threshold (e.g., 5 percent of GDP) would trigger a mandatory staff investigation before program approval. For countries where automated links have not yet been established, manual reconciliation with the World Bank's Debtor Reporting System should be required on an annual basis at the minimum.

[6] Global Sovereign Debt Roundtable, 5th Co-chairs Progress Report, October 15, 2025, pp. 4–5. Available at: https://documents1.worldbank.org/curated/en/099322210152578416/pdf/IDU-4b5367f0-45b8-42f1-872b-bb63a51f5655.pdf
Agarwal, P. (2025, August 12). "Behind the scenes: How we work with creditors on debt transparency." World Bank Data Blog. Available at: https://blogs.worldbank.org/en/opendata/behind-the-scenes—how-we-work-with-creditors-on-debt-transparen
World Bank & International Monetary Fund. (2025). World Bank Debtor Reporting System (DRS): Main updates, process, and timeline (BOPCOM – 25/06). Forty-Fifth Meeting of the IMF Committee on Balance of Payments Statistics, Bangkok, October 28–30, 2025

Figure 1: Surveillance workflow diagram showing the three-phase process, the closed feedback loop, and the structural vulnerability points



Priority Recommendation

If only one preventive reform is adopted, it should be this one. Mandatory automated reconciliation, extended to the CFA franc bank debt and regional central bank records, would have detected Senegal's hidden debt within a single reporting cycle. It requires no new data collection, no new institutional architecture, and no political negotiation, only the mandate to cross-reference databases that already exist. The technology has been piloted and the cost is negligible relative to the US$13.3 billion of hidden debts that could have been prevented in this case.

Reform 2: Statistical Anomaly Screening

- **What:** Embed an automated anomaly detection in DSF's surveillance architecture, screening reported data against multiple external indicators.
- **Why:** Senegal's commitment-to-disbursement ratio was the third highest in the developing world by the end of 2023. Basic variance analysis would have flagged this as an outlier. The DSF currently lacks any automated pattern recognition.
- **Indicators:** Potential screening indicators include commitment-disbursement ratios; bond issuance records versus reported debt stocks; secondary market pricing; credit rating trajectories versus reported fiscal positions; and Debt Reporting Heat Map scores. When two or more indicators flag simultaneously, mandatory verification is triggered. No new data collection would be required as all indicators already exist in World Bank, IMF, and market databases. Corporate credit risk management has used similar systems for decades.

Reform 3: Shared Accountability for Surveillance Failure

- **What:** If the IMF approves a lending program based on data that are later shown to be fraudulent – and the fraud was detectable from information already available to the institution – the terms of any subsequent lending arrangement should reflect the IMF's shared responsibility for the surveillance failure, instead of focusing solely on the debtor country's responsibility for the misreporting.
- **Why:** The current system creates an accountability asymmetry. When surveillance fails to address sovereign misreporting, the debtor population bears 100 percent of the costs through austerity, while the surveillance institution faces no consequences. This creates moral hazard on both sides: insufficient deterrence for governments and insufficient incentive for rigorous surveillance.
- **Mechanisms:** Extended maturities for debt accumulated during the surveillance failure period; reduced conditionality reflecting the shared nature of the failure; concessional refinancing of the portion of debt that a functioning surveillance system should have detected.
- **The IEO precedent:** No independent review of the IMF's surveillance failure in Senegal has been announced. This is itself a significant gap. The IMF's Independent Evaluation Office (IEO) has conducted such reviews before, and its evaluations in 2011 and 2014 both led to reforms in institutional practice. Conducting a mandatory IEO-style review whenever surveillance failures of this magnitude occur would create institutional incentives for vigilance that do not currently exist. The BCEAO should do a parallel review. As the central bank for all WAEMU countries, it supervises regional banks and has direct access to their lending data. It had the data to see how much banks were lending to Senegal and still did not flag the discrepancy.

Reform 4: Remediation for Affected Populations

- **What:** Preventive measures alone are insufficient for the 18 million Senegalese already subject to austerity for debts they did not know existed.
- **Domestic accountability:** Officials who directed this systematic concealment should face legal consequences under domestic law. Parliamentary mechanisms to inform citizens about sovereign borrowing, including a publicly accessible, annually updated debt register, should be established.
- **Odious debt:** The doctrine of odious debt (Sack, 1927)[7] holds that debt contracted through fraud, without democratic oversight, and against the population's interests cannot be legally binding on the state. The hidden portion of Senegal's debt meets all three criteria. This portion should be eligible for binding debt relief, with losses distributed among creditors who lendt fund despite visible warning signs and institutions that failed to exercise due diligence.

What Happens Without Reform

Senegal is not an isolated case. As of September 2025, 9 countries are in debt distress, and 24 are at high risk under the LIC-DSF, together comprising nearly half of all assessed countries . Among those at high risk, 18 have been identified by the IMF as particularly vulnerable due to elevated domestic debt, high debt service-to-revenue ratios, and constrained fiscal space. The structural features of the DSF that enabled concealment in Senegal – reliance on self-reported data, the absence of automated reconciliation, and obsolete thresholds – apply to each of them.

The conditions for a repeat of this debacle are present across the system. Between 2022 and 2024, low- and middle-income countries experienced $741 billion in net financial outflows. Interest payments account for 20-40 percent of government revenues in many countries. Under this pressure, the incentive to underreport is structural, not idiosyncratic.

The question is not whether another hidden debt crisis will occur, but whether it will be detected before a lending program is approved on fraudulent data and before millions of citizens are subjected to austerity for liabilities their governments concealed. When the opportunity cost of non-implementation is as high as US$13.3 billion (approximately 8.1 trillion CFA francs) in undetected hidden debts, the cost of implementing these four reforms is negligible by comparison.

At the time of writing, the IMF's own LIC-DSF database still classifies Senegal – at 119 percent debt-to-GDP, rated CCC+ by S&P on both foreign and local currency, among the most heavily indebted countries in Africa – as being at "moderate risk" of debt distress, based on a July 2023 assessment. No updated assessment has been published. The watchdogs are still not barking.

[7] Sack, A. N. (1927). Les effets des transformations des états sur leurs dettes publiques et autres obligations financières: Traité juridique et financier. Recueil Sirey.

[8] IMF List of LIC DSAs for PRGT-Eligible Countries (September 30, 2025). https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

[9] World Bank, International Debt Report 2025 (December 2025); https://www.worldbank.org/en/programs/debt-statistics/idr/products https://eyeonglobaltransparency.net/2025/04/03/under-estimated-external-debt-in-senegal-highlights-ongoing-debt-transparency-challenge/ World Bank, Debt Transparency in Developing Economies (2021). https://openknowledge.worldbank.org/entities/publication/debt-transparency-developing-economies World Bank. (2026, February 17). "Beyond the narratives: What the IDR 2025 data reveal about debt in low- and middle-income countries. World Bank Data Blog. https://blogs.worldbank.org/en/opendata/beyond-the-narratives—what-the-idr-2025-data-reveal-about-debt-

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