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December 17, 2020

**Statement by Mr. Chodos, Mr. Herrera, and Mr. Morales on Benin
(Preliminary)
Executive Board Meeting
December 21, 2020**

We thank staff for a clear report and Mr. Andrianarivelo, Mr. Sylla, Mr. Nguema-Affane, and Mrs. Boukpepsi for their helpful Buff statement. The authorities' swift response to the COVID-19 pandemic crisis helped to contain the spread of the virus, but as is the case of many low-income countries, the economic outlook has deteriorated significantly. We support the authorities' request for an RCF/RFI equivalent to 100 percent of quota, including a disbursement under the RCF "exogenous shock window" to help address urgent fiscal and BOP needs. We note that other financing sources are uncertain, partly because of political risks associated with the 2021 presidential election. Therefore, we encourage the authorities to maintain a constant dialogue with bilateral and multilateral donors while the pandemic continues and to explore all possible avenues for additional financing down the road.

The Beninese authorities took decisive measures to mitigate the impact of the health and economic crisis. Lockdown measures, higher health care spending, and enhanced assistance to the vulnerable population were rapidly put in place, but the impact on economic activity was more severe than anticipated, partly because of negative spillover effects from neighbor countries. Lower exports, value chain disruptions, and lower tourism receipts and remittances hit economic activity, widened the external current account, and compressed fiscal revenue. While the BOP gap would be addressed directly through additional financing, untimely budget financing may lead to a higher end-year float that may carry over to 2021, for example, if revenue underperforms. Against this backdrop, we are puzzled by the relatively large discrepancy between staff and the authorities on projected revenue. *Could staff indicate how much of this discrepancy comes from different assumptions about the expected time for the reopening of the border with Nigeria?*

We encourage the authorities to closely monitor developments in the banking system. Non-performing loans may be underestimated because of temporary leeway in classification rules. On a related point, we take positive note of the public guarantee plan coupled with credit lines and refinancing measures introduced by the authorities within the scope of the second pillar of the

COVID-19 response plan to support micro, small, and medium enterprises. However, it is likely that some sectors could face challenges to repay obligations until the recovery takes hold, and therefore, a strategy to target financing to viable firms and to handle emerging non-performing loans should be prepared well in advance.

We commend the authorities for the implementation of governance safeguards to ensure transparency and accountability in the management of COVID-related expenditures. Disclosure of COVID-19-related expenditures, audited by different parties, together with the publication of key information on procurement contracts, would contribute over time to establishing transparent public finance management practices across the board. In this regard, we welcome the plan to finalize the Fiscal Transparency Evaluation and a comprehensive assessment of fiscal risks by June 2021.

With these comments, we wish the authorities and people of Benin every success in these difficult times.