March 16, 2001
Approval: 3/23/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 00/71

4:55 p.m., July 17, 2000

Contents

Executive Board Attendance

E. Aninat, Acting Chairman

Executive Directors

S.M. Al-Turki
A. Barro Chambrier

Alternate Executive Directors

P.R. Fenton, Temporary
M.J. Fernández, Temporary
R.J. Singh, Temporary
C.-P. Schollmeier, Temporary
J.A. Costa, Temporary
J.N. Santos, Temporary
Sugeng, Temporary
S.Keshava, Temporary
A. Jacoby, Temporary
J. Sigurgeirsson, Temporary
L. Redifer, Temporary
E. Jourcin, Temporary
S. Rouai, Temporary
C. Rustomjee
I. Zakharchenkov, Temporary
B. Kelmanson, Temporary
V. Dhanpaul, Temporary
A.F. Al-Faris
M.S. Hililan, Temporary
Xu, J., Temporary
I.C. Ioannou, Temporary
K. Harada, Temporary

J. Prust, Acting Secretary
C.E.L. Andersen, Assistant

Also Present
IBRD: H. Larbi and J. Katz, Africa Regional Office. African Department: E. Hernández-Catá, Associate Director; C. Briancon, J.A. Clement, X.H. Debrun, C.A. Francois, E. Harris, J. Mathisen, W.A. Ossie. External Relations Department: C.N. Lotze. Legal Department: P.M.-P. De Boeck. Policy Development and Review Department: M. Ahmed, Deputy Director; S. Rizavi. Secretary's Department: B.A. Sarr. Advisors to Executive Directors: A.R. Ismael, B. Konan. Assistants to Executive Directors: S. Boucher.

1. BENIN—POVERTY REDUCTION AND GROWTH FACILITY—THREE-YEAR ARRANGEMENT, INTERIM POVERTY REDUCTION STRATEGY PAPER AND JOINT STAFF ASSESSMENT; AND ENHANCED INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES —DECISION POINT

The Executive Directors considered a staff paper on Benin's request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) (EBS/00/130, 7/10/00), together with a paper, prepared jointly by the staffs of the Fund and the International Development Association, on the decision point document for Benin under the enhanced Initiative for Heavily Indebted Poor Countries (EBS/00/118, 6/26/00). They also had before them an interim poverty reduction strategy paper for Benin (EBD/00/50, 6/26/00) and assessment of the interim poverty reduction strategy paper, prepared jointly by the staffs of the Fund and the International Development Association (EBD/00/51, 6/26/00).

Mr. Barro Chambrier made the following statement:

My authorities would like to extend their appreciation to the staff and management for their helpful advice and for their continued support in the efforts to improve the performance of the country. My authorities are also thankful for the continued support of the international community. This support has contributed significantly in improving macroeconomic stability, growth, public sector management and social indicators.

As a background, it may be useful to remember that until recently Benin was a centrally planned economy, and the transition to a market-oriented one has not been easy, and the transition is ongoing. Nevertheless, over the past decade the authorities, with the assistance of the Bretton Woods Institutions, have implemented a number of far -reaching measures which are having a positive effect on macroeconomic stability, achieving sustainable economic growth and reducing poverty. At the same time, it should be noted that the country is undergoing the process of democratization. Under these conditions, the first annual arrangement under the PRGF which had been approved by the Board in August 1996 was completed successfully. However, the political environment became subsequently more difficult and delayed the implementation of some structural measures so that the second review could not be completed. Despite an extension of the commitment period to August 2000, the government could not adopt a third annual program. Therefore, my authorities are requesting for the cancellation of the first three-year PRGF and its replacement by a new PRGF, and the first arrangement thereunder.

With these developments in mind, it is useful to note that Benin's macroeconomic performance in 1999 has remained satisfactory, as the country registered 5 percent real GDP growth, despite a decline in cotton production, and the effect of the regional energy shortage in late 1998. Inflation was

reduced significantly, as the supply of foodstuffs increased following improved weather conditions. The external current account deficit remained unchanged, despite the sharp deterioration in the terms of trade, as cotton prices dropped, and oil prices increased. In the fiscal area, the government has continued its fiscal consolidation efforts and took a number of steps to improve revenue collection and keep expenditure under control, while increasing budgetary allocation to social sectors. Efforts to reduce domestic arrears also continued. As a result, the overall fiscal deficit, excluding grants, fell to 1.1 percent of GDP in 1999. Progress was also achieved in the structural area where a number of important reforms were undertaken, notably in the civil service sector, petroleum sector and utilities, but overall this progress was less than expected. The drop in cotton prices also made it difficult for the authorities to maintain the pace of reform in that sector, although some measures were taken, and the authorities remain fully committed to the objectives of the reform plan.

Overall, my authorities are of the view that the momentum of reform, although it may have slowed, has been maintained. The improvement in the political climate has enabled the authorities to build on the progress achieved, and to complete negotiations with the staff on a new program of adjustment and reforms for which they are requesting Fund support under the PRGF. The objectives of the three-year program remain the achievement of financial stability, high and sustainable economic growth, and poverty reduction.

Within this program, the first year arrangement for the period April 2000-March 2001, the authorities expect to achieve real GDP growth of 5.6 percent, based on a favorable prospect for cotton production, and industrial sector output, while inflation is expected to increase to 3 percent in 2000, partly following increases in oil prices.

To achieve these objectives the authorities will strengthen fiscal policy, so that the primary deficit is reduced to less than 2 percent of GDP. Despite the projected decline in the cotton sector's contribution to the budget, the government is confident to maintain the level of total revenue at 15.7 percent of GDP. Government expenditures, however, are projected to increase by 2.2 percent of GDP, mainly on account of higher wage bill which includes an increase in wages and salaries based on the new wage scale, additional recruitment, mainly in the social sectors, and also higher outlays for health and education. In the context of strengthening the fiscal sector, my authorities will continue their efforts to improve tax and customs administration and to reinforce the current program to combat tax fraud. In this context, a number of measures are being taken. These are well described in the authorities' memorandum.

As regards the use of financial resources generated from privatization and the recent bond issue by the Treasury, the authorities, after consultation

with the World Bank and the Fund, will adopt a supplementary public investment program. Some of the resources will also be used to finance a subsidy on kerosene, and emergency assistance to cotton producers who suffered major losses because of insect infestation. The authorities view these expenses as contributing to prevent a worsening of poverty in the country.

The government also intends to pursue a comprehensive program of structural reforms in support of its macroeconomic and poverty reduction policies. The major reforms include the modification of the civil service salary system, enforcement of the new wage scale, the decentralization process in the framework of the administrative reforms, the liberalization of the cotton, telecommunications, water and electricity sectors, as well as the privatization of the Cotonou harbor.

On governance and transparency, an Ethics Unit created four years ago, continues its effort to educate the population and prevent and detect corrupt practices. A first team of personnel trained overseas is helping in these efforts. Among others, the Unit looks at the declaration of personal property of the personnel in charge of tax collection, and investigates and records all public real estate and public contracts. It is also working on the preparation of an ethical code.

The poverty strategy was initiated in November 1999, and my authorities have developed a credible and sound program with a large participatory process, as reflected in the interim PRSP. The paper attempts to build on the ongoing efforts of the authorities to reduce poverty. It emphasizes the government's commitment to address poverty issues and makes explicit reference to poverty reduction goals over the next 15 years. Under the program of Social Dimensions of Development (SDD), the authorities implemented policies that have attracted the support of the international community. Measures to improve the conditions the poor and most vulnerable groups have received donors' full attention. Well-focussed micro-projects and micro-finances continue to expand with the assistance of the international community. The authorities have also supplemented these efforts through assistance to local and village organizations, which have been established throughout the country. Moreover, the authorities expect that the ongoing structural reforms will also contribute to poverty alleviation, as they improve supply conditions and remove bottlenecks in the economy.

Based on the latest DSA, and after application of traditional debt relief, it is clear that Benin's external debt situation will remain unsustainable. Also, based on the level of per capita income, the size of the external debt, and the satisfactory track record of macroeconomic and structural performance, my authorities are of the view that the country meets the eligibility criteria for assistance under the HIPC Initiative, and that it has met the conditions for the

Decision Point. They are also confident that they will be able soon to meet the conditions for the completion point.

Overall, it is clear that, although there were some delays in the implementation of structural reform measures, the Beninese authorities have continued to pursue the adjustment effort. The authorities have remained fully committed to the objectives of the program, and the recent macroeconomic performance is indicative of that commitment. They would like to reiterate their determination to maintain the adjustment momentum, and to continue their efforts to accelerate the pace of reforms. Nevertheless, they recognize that much more needs to be done in terms of macroeconomic and structural reforms, and that poverty remains a major issue. They are convinced that these challenges can be overcome with constant and strong efforts on their part and with the assistance of the international community. The program that they are implementing under the PRGF goes in this direction, and they are hopeful that with the assistance of the Bretton Woods Institutions, and especially assistance under the HIPC Initiative, the pace of development can be accelerated so as to improve the living standard of the population.

Ms. Lissakers and Ms. Redifer made the following statement:

As our chair mentioned during the request for a waiver of the minimum circulation period, we thought it inappropriate that Staff and management were willing to go along with Bank Board consideration of the HIPC decision point before the PRGF document was available. As it is, there has been barely time for either Board to digest the material in the document.

This point is important for two reasons. First and foremost, the Bank still has no clear operational vehicle for ensuring that conditions related to HIPC milestones and the PRSP are fulfilled. The PRGF is the only vehicle in the two institutions that clearly fulfills that function, and for that reason, is a major piece of the puzzle for coming to HIPC decisions. Second, in this specific case, the decision point document asserts that "good economic performance and a satisfactory track record of structural reform implementation have justified continued financial support from IDA and the Fund since 1989." However, delays in structural reforms held up the review of the second year of the PRGF, and left no time for a third year of the program. We are not willing to go against the proposed decision and have no interest in delaying HIPC milestones, particularly given the overall progress Benin has made in its transition from central planning to a market-oriented economy. However, we are very concerned about how the Benin case has been handled, both procedurally and substantively.

On the substantive point, it is hard to tell from the PRGF document precisely what was and was not accomplished on the structural front. With regard to the earlier PRGF that withered midcourse, the staff report notes that

corrective measures have been taken and that the authorities are accelerating the pace of reforms under the new program. The corrective measures do not appear to have been complete and the new program has not yet been approved, so their intentions do not substitute for performance.

More specifically, of the three key structural reforms on cotton, the civil service and petroleum price fixing, the staff report implies that there were only delays in fulfilling the measures. This appears to be only the case for petroleum. According to Box 2 on page 11 of the PRGF document, several measures on civil service reform are still unfinished. And while the decree to sell seed cotton beyond SONAPRA was issued, it is not clear that the transfer of the responsibility for organizing the import and distribution of pesticides and fertilizers to the private sector was completed, as the table contends. In fact, the LOI, on page 53, paragraph 41, says discussions on this continue, as well as on the preparation of a regulatory framework defining the government's role in the sector. We would like to see much more detail on this in the first review of the program, as well as a good deal more detail and background on governance and the development of the anti-corruption strategy.

As regards the ambitious structural agenda going forward, Box 3, we note that a plan for privatization of SONAPRA is to be finished by the end of this year. Can the Bank representative comment on whether any audits of the institution are planned in the context of its privatization? There have been recent allegations of rampant corruption and mismanagement of its accounts. Getting the accounts straightened out seems especially relevant given the heavy financial sector exposure to SONAPRA. Also, according to paragraph 15, the drops in the world price of cotton have been largely passed through to the local growers, and this will allow SONAPRA to break even rather than to operate at a substantial loss.

With regard to the larger issue of privatization, there was substantial progress in the past decade in privatizing the centrally-planned economy. However, some of the most profitable and most complex industries, e.g., utilities, cotton, port, railroad, textiles, are still to be privatized. The structural matrix going forward includes requirements to define and adopt a strategy for the future role of the private sector in these industries. We understand that information has come to light that there may have been some problems in the SONACOP privatization last year. Are the authorities amending procedures to ensure these problems do not recur going forward?

Although the authorities have made little headway on their discussions for civil service wage reform, the efforts to create a more efficient public sector are laudable, as is the effort to include the unions in discussions of its construct. The authorities made real efforts to bring about further fiscal consolidation, and we welcome their efforts to improve budget management,

per recommendations from the Bank's public expenditure review. They now need to focus on improving the amount and type of social spending. Although more precision would have been desirable, we are pleased to see that staff has discussed how the fiscal objectives of the program were affected by the poverty reduction goals.

As the U.S. chair noted in the Bank Board discussion, we found the interim PRSP disappointing in terms of its lack of emphasis on growth, lack of description of the planned participatory process, and lack of specifics, beyond Box 3 of the decision point document, on how interim debt relief will be used to ameliorate poverty reduction spending. The full PRSP will need to address these issues, and better prioritize the structural matrix over the life of the PRGF. Can staff clarify which of these measures are benchmarks and which are performance criteria?

We support the government's strategy to increase competitiveness through strengthening the legal and regulatory framework. In their efforts to diversify further the economy, perhaps the authorities can draw a lesson from Burkina Faso and work on an assessment of potential growth industries, particularly those that export, and means of developing them.

We note that the Fund plans to provide interim relief until the completion point. Can staff clarify whether this is contingent upon AfDB or other assurances to participate?

We agree with the conditions in Box 7, although wonder if staff can comment on whether something additional on auditing SONAPRA might be warranted. Also, would it make sense to have something more on privatization here, to build on the progress expected under the PRGF by the end of the year? Do other Directors have a view?

Mr. Rustomjee made the following statement:

As mentioned by Mr. Barro Chambrier in his statement, Benin has made notable progress in shifting from a centrally planned to a market-oriented economy. Many structural reforms have been undertaken, including the privatization of more than 50 enterprises and development of the private sector, infrastructure development and other measures targeted at alleviating poverty, all of which have led to a major improvement in social indicators.

Regarding performance under the PRGF, we note that the first year was successfully completed while there were a few delays in the second year. Given the enormous challenges faced by Benin, including profound poverty, limited technical and administrative capacities, some delays in implementing some of the structural measures during the second year of PRGF are understandable.

It is important to note that, in spite of these minor setbacks, Benin's macroeconomic performance in 1999 was encouraging. Although the country experienced a decline in cotton production, regional energy shortages and a sharp deterioration in the terms of trade, output growth was higher than programmed, inflation was brought down sharply, the current account position was unchanged and the fiscal deficit was reduced to 1.1 percent of GDP. Moreover, the authorities took corrective measures in the structural area and they remain strongly committed to accelerate the reform agenda under the new program. I therefore support their request for a new PRGF.

I support Benin's qualification under the enhanced HIPC Initiative, given the high debt-to-export ratio and spread wide poverty within the country. We are convinced that the authorities have fulfilled the conditions for reaching the decision point, and I am agreeable to the measures intended for the completion point. The measures and objectives to reach the completion point, as specified in box 7 of the Decision Point document are very challenging indeed, but in my view appropriate. Among these, I particularly urge the authorities to address the government financial management measures, in particular to establish as early as possible a medium-term expenditure allocation program. I encourage the authorities to accelerate negotiations with non-Paris Club creditors and the preparation of the PRSP in order to expedite debt relief. I also welcome that, in addition to the Fund and IDA, the AfDB, European Union, European Investment Bank, and OPEC fund will also be providing interim assistance.

Regarding the new PRGF, the program rightly emphasizes financial stability, deepening of structural reforms to promote high growth, comprehensive social policies and promoting good governance. Benin's economy is predominantly agricultural and cotton is the major crop. Measures geared towards economic diversification would be crucial to reduce the country's vulnerability to adverse weather conditions and heavy reliance on external aid. It is also reported that the majority of the poor reside in the rural areas and the development of infrastructure will be very important indeed in income generating activities in these areas.

I also welcome that the new program emphasizes the strengthening of the fiscal sector and encourage the authorities to resolutely implement the tax measures detailed in their memorandum. Regarding expenditures, the key areas would be in social spending. The policies intended for developing the education and health sectors are indeed encouraging.

Finally, we note with concern the high proportion of non-performing loans in the banking sector and encourage the authorities to address this problem in order to improve stability and promote private sector lending. Also many micro-financing institutions lending to the rural sector seem to be

experiencing financial difficulties and tackling this problem will go a long way in strengthening the fight against poverty.

I support the proposed decision and wish the authorities well in their endeavors.

Mr. Al-Turki made the following statement:

Benin continues to face difficult economic challenges. While growth continues, the outlook remains constrained by macroeconomic and structural weaknesses. This highlights the importance of determined action to fully implement the agreed policy agenda. Here, I thank staff for the lucid documents and Mr. Barro Chambrier for his helpful buff statement.

I broadly agree with the staff appraisal and have only brief remarks.

On structural reform, the authorities have made commendable progress in public enterprise reform. The reduction in the number of such concerns from 65 to 8 and the recent extension of the process to the critical cotton sector is indeed welcome. The bold move to end SONAPRA's monopsony over seed marketing and greater managerial discretion for producers bode well for market led growth. It is important to focus now on implementation without a repetition of the delays that have occurred in the past. Here, like the US chair, I would like to see more details on this point in the first review of the program.

Given the recent and prospective program performance, I support the authorities' request for the three-year arrangement under the PRGF. In that connection, I agree with staff recommendations on the eligibility, the approval of a decision point, and the recommended amount and delivery profile of the proposed assistance for relief under the E-HIPC Initiative. I also agree to the recommended floating completion point. Here, let me commend the authorities and the staff for avoiding undue details in the specification of the ambitious but realistic goals set out in Box 7. That said, let me also stress that the broad definition of goals requires close attention to the need for an effective monitoring of the program's progress.

With these remarks, I wish the authorities further success.

Mr. Kelmanson made the following statement:

We welcome the opportunity to discuss the proposed PRGF arrangement and decision point under the enhanced HIPC Initiative. We support the recommendations made by the staff and management, and would like to make only a few comments for emphasis.

While we welcome the introduction of criteria relating to social spending, it will be important to ensure its quality. The effective use of resources released under the enhanced HIPC Initiative and the PRGF-supported program will be dependent on effective administration. During the last Fund-supported program, social sector spending and investment was below budget every year. In the new program, the importance of disbursing allocated spending is rightly emphasized as being key to improving outcomes. However, the spending of allocated resources must not become an end in itself; efforts must be supported by continued improvements in the institutional infrastructure and in the quality of the spending itself.

We note that the political environment for reform might become even more challenging, given the upcoming presidential elections. Therefore, it would be interesting to have a more detailed understanding of the potential implications of macroeconomic slippages.

We agree with the staff that Benin is eligible for reaching the decision point. The proposed assistance and delivery profiles appear to be appropriate. We also broadly agree with the conditions listed in Box 7 of the decision point document for reaching the floating completion point, although we have a few comments.

First, the benchmarks relating to the health care sector appear to be somewhat detailed and potentially over-prescriptive. We also wonder whether the Fund should emphasize the need to formulate a specific policy to address the issue of HIV/AIDS.

Second, we agree it is appropriate not to require a period of implementation of the full PRSP, given that Benin is a retroactive case, having qualified for assistance under the original HIPC Initiative. While we consider that the interim PRSP provides a sound basis for reaching the decision point and for designing the full PRSP, we found it somewhat disappointing; the data and background information on poverty is available in Benin, contrary to many other HIPC countries. We were reminded during the Bank Board discussion of Benin that the interim PRSP has been put together rather quickly in order to avoid slowing down the HIPC process. Much remains to be done before a full PRSP will be in place, and it will be important to ensure that the quality of the full PRSP not be sacrificed for the sake of speed. For the full PRSP, a deeper analysis of the link between growth and poverty will be needed, as well as an assessment of the various policy options. The full PRSP must also contain more details on the participatory process, where we found the interim PRSP somewhat lacking in detail.

On the issue of the timing of the Board discussion, we agree with the U.S. chair that, ideally, the PRGF document should have been made available prior to the Bank board meeting. The Bank and Fund discussions should, as a

rule, be based on all relevant documentation. In the present circumstances, however, we were less concerned than our American colleagues about the unavailability of the PRGF documentation at the time the of the Bank Board meeting concerning the HIPC decision point document. The HIPC papers constitute a collaborative enterprise between the Bank and the Fund, and the staff would presumably not have agreed to having the Bank Board meeting if there had been serious problems with the PRGF-supported program.

Mr. Jourcin made the following statement:

First of all, I would like to briefly express my support to the request for arrangement under the PRGF and my general agreement with the Staff's presentation of Benin's satisfactory macroeconomic performance, as reflected in GDP growth and fiscal stance, as well as in external accounts. Overall, through its macroeconomic performance, this country fulfills one of the required conditions to qualify for the enhanced HIPC initiative. It must be recalled that Benin is a retroactive case and therefore that, already within the original framework of the HIPC initiative in 1997, its track record was considered to be good enough.

The performance of this country is also worth noting in the area of structural reforms. Even if the staff report indicates rightly that, sometimes, the pace of implementation has been slow, I note above all that important progress has been made in numerous sectors, such as public administration and enterprises. For instance, I share the view expressed in the staff appraisal that a major step toward liberalization of the cotton sector has been taken and that the process to improve efficiency of this sector is well under way, in collaboration with the World Bank. In sum, in the structural area, the authorities are focusing their efforts in the right direction, laying the basis for a more dynamic economy and increased private sector activity.

As for poverty reduction, it is true that results have remained rather insufficient. The staff rightly underlines that the fight against poverty was undertaken at a very early stage in Benin, under various initiatives and development programs. However, for a long time, the reduction of poverty has been undermined by limited implementation capacities. Consequently, progress has been slower than expected and the outcome is less important than foreseen. The insufficient level of public spending in the education and health sectors, as well as the weakness in social indicators, clearly show that efforts deployed in the past have not been very fruitful. The interim PRSP gives a new start to these efforts and demonstrates the authorities' determination to lead more efficiently the fight against poverty. Overall, I concur with the staff's assessment. This is only an interim PRSP and, of course, much remains to be done. The implementation process needs to be better organized, notably in terms of participation, but this is ongoing. During the next months, with appropriate technical assistance and financial support from the international

community, Benin should be able to develop this process and to finalize its PRSP by mid-2001.

Concerning the approach proposed in the framework of the enhanced HIPC Initiative, I share the staff's analysis and therefore support Benin's eligibility, as well as the decision point. The conditions for reaching the completion point seem to me appropriate and are in line with those required for retroactive cases.

Finally, a few comments and questions:

First, debt reconciliation has yet to be completed with some creditors, including the Paris Club. In fact, since the data are right, this is less a task of data reconciliation than a question of debt classification;

Second, regarding the participation of all creditors, I would appreciate it if Staff could give us more information on the prospect of the participation of non-Paris Club creditors;

Third, concerning the agreement on a buy-back operation with Argentina, it is clear that additional efforts will need to be made by this creditor in order to provide a debt treatment in line with what is foreseen for Benin in the framework of the HIPC initiative;

Fourth, in the area of interim assistance, I am in agreement with the proposed delivery profile with a view to smoothing the debt service of the Bretton Woods institutions, notably concerning the IMF;

Fifth and lastly, as for the Paris Club, I would like to make a comment about interim assistance. The text on paragraph 57 should be updated. It says that some creditors of the Club are contemplating providing interim assistance. Actually, all the Paris Club as an entity, and not only some of its creditors, has decided to provide interim assistance to Benin. As of the decision point, the impact of this interim assistance on debt service will be comparable to the alleviation provided under Cologne terms. Moreover, beyond this interim assistance from the Paris Club and the effort accomplished in the framework of the HIPC initiative, several creditors of the Club, including France, intend to grant some supplementary cancellations at the time of the completion point, as rightly indicated in the same paragraph of the report.

Mr. Sigurgeirsson made the following statement:

I support Benin's eligibility for debt relief under the enhanced HIPC Initiative, and the request for an arrangement under the PRGF. I believe that it was fortunate that a method was found to accommodate the special

circumstances regarding Benin's transit traffic when assessing its debt sustainability.

On the interim PRSP, I have some concerns that civil society and donors may not have been consulted sufficiently. Furthermore, the strategy document appears to be very general in nature, involving little vision for poverty alleviation and failing to outline measurable targets. When it comes to completing the full PRSP, it will, hopefully, be more explicit.

The ownership of the program is important, and while Benin has made significant progress in program monitoring, more can be done to improve the methodology of data collection and analysis. Without proper local competence, Beninese ownership of the exercise will remain illusive, and the political discussion on poverty reduction may never mature.

It is also of concern that there still remains a lack of absorptive capacity within social sector administration. This is an important area when it comes to managing the additional funds available under the enhanced HIPC Initiative. I therefore encourage efforts under the proposed PERC framework. The effects of these efforts will take time and, until then, this will remain a problem.

Finally, I would encourage the authorities to step up public enterprise reform. The government's recent move to abolish the market privileges of SONAPRA is a step in the right direction. It will, however, be important to secure competition in the market, also in a private regime. As regards the banking sector, the exposure of banks to the cotton and textile industry will remain a difficult issue. Some remedy can be found in tighter supervision and exposure to a larger number of companies following privatization and reform. However, a solution to this problem will only be found by increased diversification in the economy.

Mr. Singh made the following statement:

Let me first join other speakers in welcoming today's consideration of Benin as a retroactive HIPC case. We can go along with the proposed decisions and support the content of the proposed PRGF.

We wish simply here to underscore the importance to carry through the key structural reforms in order to achieve the macroeconomic objectives of the program and this despite the political environment. For instance, the deterioration of the terms of trade in 1999 and worrisome developments in the banking system clearly demonstrate that Benin's economic and financial situation remains fragile and highly vulnerable to external shocks (namely from the cotton sector).

I would also join here previous speakers in underscoring the need for the authorities to improve the efficiency of public spending. In this respect, we particularly welcome the authorities' resolve to act decisively when serious frauds were identified and to improve the general governance situation in the country.

We are a bit uneasy, however, about the late approval of the PRGF, supporting an economic program that already started back in April. While we understand the need to demonstrate some good performance before the Board discussion, a delay of nearly four months brings us rather near the mid-term review. We consider therefore today's case as setting an upper limit.

Turning now to the I-PRSP, we believe the proposed document provides a good basis for the discussion and development of a poverty reduction strategy. We welcome the authorities' plans to carry through the participatory process, although we share the staff's concerns about the complexity of the proposed institutional framework. Consulting the parliament, civil society, the private sector, and the poor will be important. We would just encourage the authorities to give enough time to these different groups to express their views and effectively participate in the process.

Moreover, the success of the strategy will depend not only on the development of specific policies, strategies, and action plans as specified in the matrix, but also on the actual implementation of reforms. The outcome and impact of the strategy will have to be monitored and evaluated. On this point, the interim PRSP is rather weak. The final document should be much more explicit about the monitoring mechanism the authorities are putting in place and the indicators they have chosen to assess the impact of their poverty policies and strategies. Furthermore, the full PRSP will have to contain indications on how the resources from the HIPC Initiative will be utilized.

With respect to the enhanced HIPC, we agree that Benin is eligible for assistance. However, we were a bit surprised by the importance of the downward revision in Benin's exports stemming from the exclusion of transit trade. While we fully support the principle that pure transit trade should not to be included in balance of payments statistics, we were surprised that the significant volume of transit trade in this case—about 40 percent of total exports of goods and services—was not mentioned in the 1997 DSA.

Although Benin is now eligible because of the enhancement of the HIPC Initiative and not because of the reclassification of its exports, the reclassification considerably increases the required assistance. We hope that Benin is an exception in this respect, as additional financing would otherwise be needed to cover the overall cost of the HIPC Initiative.

On the debt relief, we welcome that not only the Fund and IDA are to provide interim assistance but also the AfDB, as it is the second largest multilateral creditor.

We are concerned however about the large amount of passive debt - accounting for about 20 percent of nominal debt—and about the different treatment the Paris Club seems to give to Benin's and to Nigeria's part of these debts. We wonder whether staff had further information on the status of these claims.

On the conditions defining the completion point, we broadly agree with the measures mentioned in Box 7. We welcome the envisaged liberalization of the cotton market, as it should result in higher receipts for producers, thereby reducing rural poverty. We also endorse the elimination of fees in rural schools. This should not only improve the enrollment rate in the short run, but also increase human capital and, through the education of girls, reduce population growth in the longer run.

We wonder, however, why the introduction of a performance-based compensation system and a new pay scale for the civil service - two long outstanding issues - are not completion point conditions. The same remark is true for the need to adopt a strategy to reform the water and energy sectors. Benin has successfully shown that with a few measures, such as access to clean water, health indicators can substantially be improved within a few years. The staff's comments on this point would be appreciated.

Moreover, in view of the slippages that occurred in recent years, we would find it useful that the condition regarding the macro-economic framework be reformulated to explicitly mention the completion of the first annual arrangement under the requested PRGF.

This being said, let me just conclude by wishing the authorities success in the implementation of their policy and reform agenda.

Mr. Ioannou made the following statement:

Let me thank the staff for the report and Mr. Barro Chambrier for his helpful preliminary statement. Benin has made strong efforts in the past few years to put its economy on a sound footing. However, the country continues to face numerous challenges in its efforts to accelerate growth and reduce poverty. To achieve these objectives, it is essential that the authorities accelerate structural reforms.

One area that remains a cause for concern is the lack of diversification and the economy's reliance on the cotton sector. A positive step toward alleviating these concerns has been the recent privatization of the cotton

sector. A lot remains to be done, however, and I would appreciate some further comments from the staff regarding efforts to diversify the productive base of the economy. Addressing this issue is essential both in order to ensure the stability of the banking system and the sustainability of the external current account.

The situation in the banking sector is a cause for concern, as evidenced by the inability of banks to meet the concentration risk ratio and the substantial amount of nonperforming loans as of December 1999. Benin's dependence on international financial assistance could also make the external position vulnerable.

While I agree that the current situation does not pose an immediate threat, there is a need to address these vulnerabilities early on, as it is essential to ensure that future financial flows will be used to finance new projects rather than meeting shortfalls in exports arising from terms of trade fluctuations.

One of the main priorities of the government will be to reduce poverty. While Benin's per capita income is quite low compared to other African countries, I note from the staff report that the incidence of poverty is not as severe as in many other HIPC countries. Could the staff explain this outcome?

Given that poverty is a multi-dimensional problem, the strategy to address it must focus on a multitude of factors that are conducive to poverty. Special attention must be given to improving governance and accelerating civil service reform in order to maximize the resources available for poverty alleviation. In the same vein, the authorities must strive to improve the efficiency of government spending. I share the views of other Directors who consider the interim PRSP rather weak and that I note that a lot more needs to be done.

First, social indicators must be improved. The causes of poverty must be better understood and priorities more adequately defined. In addition, the proposed poverty reduction measures must be properly costed and incorporated into the fiscal framework. The impact of the various poverty reduction measures must be actively monitored through indicators.

Second, the participatory process must be strengthened by setting up a mechanism that will ensure that feedback from the local population is used effectively during all the stages of the process from consent to implementation and evaluation.

Third, in light of the above, and taking into account the upcoming presidential elections, I consider the timetable for the completion of the PRSP to be somewhat ambitious. Every effort should be made not to compromise the quality of the full PRSP.

Turning to the proposed decision, I agree that Benin is eligible for assistance under the enhanced HIPC Initiative. I can endorse the proposed amount and delivery profile for the assistance, including the provision of interim assistance by the Fund. As regards the conditions for reaching the completion point, I would have preferred the inclusion of poverty-related targets, although I understand that such targets will emerge once the PRSP process has been completed. More generally, I would have preferred box 7 of the decision point document to include more outcome-oriented targets rather than broad policy measures. With these comments, I wish the authorities every success.

Mr. Schollmeier made the following statement:

We support Benin's request for Arrangement under the PRGF.

The country is eligible under the enhanced HIPC Initiative and we approve the decision point. We go along with the staff's recommendations and analysis. However, let me highlight some issues:

Maintaining macroeconomic stability will be a necessary condition for achieving high economic growth and poverty reduction. Since the track record of the previous Fund arrangement has not been fully convincing, we strongly encourage the authorities to stick to the current reform agenda. Key reforms should not be delayed.

Secondly, we have some doubts about the growth projections of 5 to 6 percent. Even growth rates of this magnitude may turn out to be insufficient to achieve a decisive change in the poverty situation. The aspect of economic diversification into non-agricultural areas has not been sufficiently elaborated. The economic outlook continues to be impaired by the dependency on agricultural production and commodity prices. Therefore, I would like to ask staff how this problem—at least in the medium term—will be addressed with the objective to broaden the product base?

Thirdly, the fiscal situation has to be kept under close review. Total expenditure and net lending will increase to 19.2 percent of GDP in 2000. Therefore, expenditures will need firm control to avoid overruns, especially in the area of non-priority spending. Especially in light of the upcoming elections, this issue might be very important. We see further room for improving fiscal procedures, also with regard to governance issues like tax fraud.

Fourthly, the authorities have already taken major steps toward a more competitive environment. However, many privatization projects are still unfinished. We wonder, whether it will be possible to complete privatization in the telecommunications, energy and cotton sectors before end 2000. We

encourage the authorities to move ahead as soon as possible to enhance productivity and strengthen competitiveness, however, we question feasibility.

Finally, on the PRSP process, we share the staff's assessment of the interim PRSP, that there is further room for action before arriving at a full PRSP with a comprehensive poverty reduction strategy. A high quality PRSP will be essential. Also, the data base of social indicators is not as complete and reliable as it could be. We support the proposed floating completion point-approval.

The preparation of the Interim PRSP was conducted with little participation of civil society. Although there is the intention to involve these stakeholders much more in the development of the full PRSP, the degree of goal setting and elaborating the road map is pretty advanced. There is only a vaguely defined consultative mechanisms. How can an influence of civil society on the elaboration and implementation of the PRSP be ensured and monitored?

Mr. Jacoby made the following statement:

Following the 1994 CFA franc devaluation, the WAEMU countries redoubled their efforts to achieve structural adjustment and macroeconomic convergence. And now, with the convergence criteria of WAEMU's Stability and Growth Pact to improve macroeconomic policy coordination, the further integration of the region's economies seems assured.

Against this background, it is not surprising that Benin's track record of macroeconomic stabilization and structural adjustment is broadly satisfactory. But just as in the cases of Senegal and Burkina Faso, the relative success of the macroeconomic stabilization policies is eclipsed by the lack of progress with poverty reduction. Since this is largely due to the absence of comprehensive anti-poverty strategies, I am more than pleased that today we are discussing Benin's interim Poverty Reduction Strategy Paper.

To be sure, the Interim PRSP is a promising beginning. But, as the staff correctly points out substantive improvements are needed to turn it into a full-fledged PRSP that will entitle Benin to reach the floating completion point. It is particularly unfortunate that there is no clear plan for ensuring, to the fullest extent possible, the participation of all elements and levels of civil society in the preparation of the poverty reduction strategy. This defect seriously increases the chance that the resources freed by debt relief will be diverted to uses other than poverty reduction. I therefore join those who urge the authorities to rethink their institutional framework to ensure broader participation by the poorest members of society. In addition, given the present level of Benin's administrative and technical capacity, I hope the authorities will accept the staff's offer of technical assistance.

Furthermore, to reach the floating completion point, I think it essential for Benin to finalize, and not merely prepare, its PRSP. Box 7 of the Decision Point Document should be modified to require an endorsement by the Board that the anti-poverty strategy defined in the final version of the PRSP is deemed adequate. In addition, it should explicitly state that the first review under the PRGF must be completed in order to reach the floating completion point. Also, the final version of the PRSP must leave no doubt as regards the participatory stance of the process. Any existing flaws with respect to the budgetary mechanisms must be eliminated. In this context, I would like to stress that the timeframe for completion of the full PRSP identified in paragraph 57 seems to be somewhat ambitious. It is questionable whether the current timetable will ensure an adequate participation of all layers of society. Therefore I would appreciate some comments by the staff as regards the chances for full implementation of the participatory process by mid-2001.

To conclude let me underscore that this chair supports Benin's request for a PRGF-supported program as sustainable growth and durable poverty alleviation depend critically on the ability of the authorities to expand and diversify Benin's productive base and open its economy to international trade. In this respect I am encouraged by the recent drive to integrate WAEMU into the larger regional arrangement of ECOWAS, since this should decisively assist the authorities' efforts to reduce Benin's vulnerability to external shocks and improve its overall competitiveness.

The staff representative from the African Department stated that the second review of the PRGF-supported program had not been completed because of concerns relating to the lack of adjustment to the price of oil products. In view of the large increase in world market prices, the staff regarded a price adjustment as essential to preserving the integrity of the macroeconomic framework. Prices had subsequently been adjusted in February and June 2000. The price of oil products had been increased by more than 60 percent, while the price of kerosene, which was used by a large part of the population for cooking and for lighting, was raised by 77 percent.

A number of reform measures had been implemented in the cotton sector from November 1999 to June 2000, the staff representative related. The government had adopted a decree to liberalize the price of cotton, and was currently in the process of transferring responsibility for importing fertilizers and pesticides from a publicly-owned marketing company to private importers and producers.

Civil service reform had been discussed for a number of years, but remained controversial, the staff representative said. There were currently three outstanding issues. First, the civil service database must be reviewed in order to ensure that all those listed in the database were still employed by the state. The review of the database had been undertaken in August 1999. However, the data still had not been compared to actual payroll data due to technical factors, although the staff had been informed that the comparison would be completed within 2000. Second, a merit-based compensation system must be introduced. A

law to that effect had been approved by parliament already in 1998. However, it needed further modifications. The government had been attempting to reach agreement on a civil service pay-scale, which was proving difficult, as it did not currently have a majority in the national assembly. Furthermore, it was doubtful that the modifications to the law could be approved without an agreement with the trade unions. Discussions with the trade unions had already lasted for six months, with no conclusion reached so far. However, the staff had been informed that the government had recently presented a revised pay scale and modifications to the civil service law to the national assembly. It was hoped that a new law could be enacted so that the merit-based system could be put in place by the fall of 2000. Progress was accordingly being made, albeit at a slow speed, as the government attempted to forge a consensus with other stakeholders in the reform process.

The staff agreed that more work was needed before the government could arrive at a full PRSP, the staff representative noted. While there had been some criticism of the lack of a fully participatory process so far, a full participatory process was not required for the interim PRSP. However, the government was currently debating how to carry out the participatory process with the public administration, the national assembly, as well as with donors. The next step would be to ensure broad participation within the population of the country. The government was ready seeking to engage in a debate with the democratically elected institutions as well as with civil society, non-governmental organizations and other groups in the country, which did not have a popular mandate, and was considering hosting a national conference on the PRSP. Conferences of that nature had been held before, on subjects ranging from economic policy to reform of the judicial system.

The World Bank was currently assisting the authorities with the development of a public expenditure plan, which would transfer greater responsibility for budget execution to the main ministries, starting in 2001, the staff representative remarked. The new system would allow the staff to monitor the execution of individual projects.

The staff had tried to limit the completion point conditions to those it regarded as being essential to the poverty reduction effort, the staff representative said. While privatization and civil service reform were important measures in themselves, they were not essential to poverty reduction, and the staff had therefore chosen not to include them in the completion point conditions. Only benchmarks relating to education, health and the implementation of the PRGF-supported program had been included.

With respect to the debt sustainability analysis, the staff had reviewed the official balance of payments data during its last mission in May 1999, the staff representative related. It had subsequently decided to exclude transit trade from the total exports of goods and services. However, imports data provided by customs did not allow for a distinction between goods for use in Benin itself and those goods that were subsequently re-exported to neighboring countries. The staff had accordingly found it necessary to rely on information from import surveys that detailed categories of imports remaining in the country and those that were re-exported in order to determine the volume of re-exported goods.

The data for passive debt related to debt held by two public enterprises that were jointly owned by Benin and Nigeria, and therefore guaranteed jointly by those two countries, the staff representative continued. During the 1980s, Nigeria's share of that debt had been rescheduled by the Paris Club under agreements with Nigeria. Since then, no information had emerged concerning Benin's remaining liabilities, even though the authorities had requested such information from the Paris Club. The staff's understanding was that Benin had no outstanding liabilities with the Paris Club at the present time. However, it was uncertain as to whether liabilities remained vis-à-vis Nigeria. The debt had therefore not been included in the debt sustainability analysis.

The economy had the potential to reach annual economic growth of 5-6 percent, although further diversification of the economic base was needed, the staff representative related.

The Deputy Director of the Policy Development and Review Department noted that, the PRGF documentation for Benin had been issued two days prior to the Bank Board meeting, leaving Bank Directors with insufficient time to study the Fund staff report. The delay had raised the broader issue of document sharing between the Fund and the Bank. Traditionally, the Bank and Fund Boards would focus on joint documents, such as the HIPC decision and completion point documents, and joint assessments of PRSPs, while focusing on their respective institution-specific documents as background for the discussion of the joint documents. The two Boards had not in the past been given the opportunity to review documents produced by the other institution at the time of their meetings. Accordingly, the Bank Board would not routinely have access to the PRGF documentation at the time of its discussion of the HIPC documentation. However, in order to streamline the information sharing process, the recently established Joint Implementation Committee was planning to focus on ways to streamline the documentation, in order to avoid the kind of overlap that was currently the practice. However, such a streamlining would require agreement within both institutions and within the two Boards.

In order to remove any potential source of misunderstanding for retroactive country cases, the Deputy Director also said that it had been decided to state explicitly in decisions relating to HIPC decision points the conditions for reaching the completion point, including the need to prepare a full PRSP, achieve broadly acceptable progress in poverty reduction, and remain on track with respect to the PRGF-supported program. Such specific references would also ensure that the PRSP would in fact be implemented, and that the country maintain a stable macroeconomic environment until the completion point had been reached.

Mr. Fenton made the following statement:

In the sake of brevity, I will submit my statement for the record. We agree that Benin is eligible for assistance under the enhanced HIPC Initiative, and that it should reach the decision point today.

There are a few points we would like to make with regard to the PRSP. We are broadly in support of the goals articulated in the interim PRSP and agree with the

details set out in the decision point document. However, we would like to stress the importance of addressing the roots of poverty rather than simply distributing social subsidies. We are pleased to see that this is recognized in the interim PRSP. Improving the circumstances for women ought to be an important part of the development process. The full PRSP should therefore include measures to increase female literacy and school completion rates in order to enhance the economic and social role of women in Benin. The full PRSP should also include a strategy for addressing HIV/AIDS, which received no attention in the interim PRSP.

The completion of a full PRSP within the proposed time frame will clearly pose an enormous challenge. The government will face great political difficulties in implementing its reform agenda. As we would like Benin to develop a fully participatory PRSP, the process must not be rushed. Given the central role that the PRSP will play in poverty reduction, it is important that the document is accepted by all concerned parties—especially the poor, which must be given the opportunity to participate in the process.

Given that Benin is a retroactive case, we would be in favor of an early completion point. While we agree that the conditions mentioned in box 7 of the decision point document are necessary, we do not want these requirements to unduly delay the completion point. We wish Benin much success in the future.

Mr. Harada made the following statement:

Like a number of other chairs, I commend the authorities for Benin's current good economic performance. However, the country still has a long way to go before real progress can be made.

Improving governance will be crucial to ensure full and effective implementation of the poverty reduction strategy. The completion of an interim PRSP is encouraging in this respect, and we share the staff's assessment of the poverty reduction strategy. Improving health care and education will be an important, albeit difficult task, as resources are extremely limited. We agree with the U.S. chair that the interim PRSP was somewhat lacking in that respect.

The authorities should give themselves sufficient time to complete the full PRSP. They should pay close attention to risks that may threaten the implementation of the poverty reduction strategy, such as a deterioration of Benin's terms of trade. An assessment of the overall cost of the strategy, as well as linking it to the overall macroeconomic framework, will also be important.

Finally, we agree that Benin is eligible for assistance under the enhanced HIPC Initiative, and support the conditions listed in box 7 of the decision point document for reaching the floating completion point. We also

agree that the Fund should provide interim assistance. We wish the authorities continued success.

Mr. Santos made the following statement:

Let me say at the outset that we support Benin's Request for Arrangements under the PRGF. We hope that the new program will provide an opportunity for Benin to strengthen its track record of policy implementation. Indeed, we cannot help feeling that, like in other countries in the region, financial discipline and a generally good record of macroeconomic stabilization contrast with a less impressive record of implementation of reform policies. This was clearly the case in the past couple of years, and for that we feel somewhat skeptical about the chances of a still heavy reform agenda being in place in the near future, particularly in view of the political constraints that no doubt will come into play. We fear that if reforms are not fully implemented as scheduled, the growth outlook could be compromised and even the not-overly-ambitious growth rates projected in the program could be out of reach, with obvious consequences for poverty reduction.

In particular, we attach high importance to the completion of reforms in the cotton sector, which could be beneficial to other sectors, including the banking sector, as it should allow domestic banks to reduce their exposure to individual enterprises operating in the cotton sector.

On the macroeconomic side we would just like to underline that inflation should be followed closely. In particular, we wonder whether the 3 percent goal set for the end-of-the-year inflation is still realistic in view of developments during the first five months of the year, when prices increased by 5.4 percent. Indeed the factors underlying the pick up in inflation should not unwind substantially this year, and the adjustment of domestic prices of petroleum products to reflect developments in world market prices should keep domestic inflation under pressure over the next few months.

On the PRSP document, we feel that the period until April 2001, when the final PRSP is expected to be completed, seems rather short, particularly in view of the fact that a large part of this time will coincide with the electoral campaigns. Moreover, the period also seems rather short to allow for a build up of administrative capacity, still very weak, which could prevent the economy from absorbing the substantial amounts of additional resources that should be made available in the short term. This problem could be partially solved if a part of these additional resources are channeled to the private sector, which could help offset the lack of absorption capacity in the public sector. In sum, we feel that the private sector could have an important role to play, in particular with regard to the provision of social services in health and education.

Finally on the HIPC Initiative, we agree with staff's proposals regarding eligibility, the debt sustainability target, amounts and timing of interim assistance, and the floating completion point. Here, however, we believe that the conditions specified in Box 7 should be fully met before the floating completion point. This, in view of the concerns that we expressed before regarding the slow implementation of reforms and its effect in the growth outlook of Benin. Like Ms. Lissakers and Ms. Redifer, we would have supported the inclusion in Box 7 of more conditionality regarding privatization, to gage progress achieved under the PRGF.

Let me make just a couple of specific comments. First, from Box 3 in page 17 it seems that the increase in social expenditures in 2000 and 2001 is higher that the room provided by debt relief under the HIPC initiative. While we understand the extreme need for better social services in Benin we wonder whether it is wise to outspend the resources that are made available by the debt relief.

Second, in paragraphs 51 and 52 it is mentioned that after 2010 access to private financing plays an increasing role in foreign financing, including nonconcessional borrowing. While that is no doubt a desirable goal, we wonder whether we are not overly optimistic assuming that Benin will regain access to international capital markets in just 10 years.

Mr. Barro Chambrier stated that he was somewhat surprised about the request for additional completion point conditionality. During the recent Board retreat, the chair of Mr. Faini had argued that conditionality should be limited to those measures that were critical to the poverty reduction effort. The conditions set out in box 7 of the decision point document were already quite ambitious. While it was understandable that the Board wanted the pace of reforms to be accelerated, the authorities must not be overburdened with conditions that had little relevance for the poverty reduction effort. Reforms must be properly sequenced in order to ensure their implementation.

Mr. Santos replied that he was not suggesting adding to the completion point conditions. Progress in privatization was already a performance criterion under the PRGF-supported program, and could therefore easily be added to the completion point conditions. Furthermore, it was crucial to proceed with the privatization of state-owned enterprises in order to create the conditions for economic growth and poverty reduction.

Mr. Barro Chambrier noted that there was a need to prepare the ground for privatization by developing a political consensus in favor of such a step. The authorities were presently cooperating with the World Bank in order to achieve an orderly and transparent process of privatization. As had been pointed out by Mr. Faini, privatization did not constitute an end in itself, but rather a means to strengthen the private sector in order to achieve sustainable economic growth.

Mrs. Fernández made the following statement:

I will be brief, as all the key issues have been raised by previous speakers. I will submit my full statement for the record.

While Benin has a track record of sound economic policy, structural reforms have not proceeded as planned during the past two years. However, we welcome the fact that the authorities have taken corrective measures, and are seeking to implement a comprehensive program that will seek to place the economy on a path of more rapid economic growth. The political environment might, however, complicate the implementation of reforms, and there is a risk that the implementation of key structural reforms will be delayed once again.

Against this background, success will depend on the authorities' determination to achieve the necessary political consensus that will enable the reforms to be implemented. As we want to provide support for Benin at this difficult time, we approve the proposed three-year arrangement under the PRGF.

With regard to the HIPC Initiative, we agree that Benin is eligible for debt relief, including the interim assistance proposed by the staff. We agree with previous speakers that the interim PRSP could have been more comprehensive. However, we believe it provides a good basis for the full PRSP.

Finally, we encourage the authorities to fulfill the conditions set out in box 7 for reaching the completion point. While they are challenging, they are essential to the effort of reducing poverty.

Mr. Rouai made the following statement:

I have only one comment. Paragraph 10 of the HIPC decision point document describes the limited capacity to monitor key investment projects and the failure to increase public spending in sectors that are key to the poverty reduction effort. I would have liked to see these comments reiterated in the staff assessment of the interim PRSP. In any event, I hope that these deficiencies will be dealt with under the PRGF-supported program and in the full PRSP.

Mr. Costa made the following statement:

In reviewing Benin's performance during the 1998-1999 program, one can see from Box 1 of the staff report on the PRGF that all quantitative performance criteria for end-September were met and that the only performance criterion not met was the elimination of SONAPRA's monopsony which nonetheless was met less than two months after the original

deadline. There are reasons, therefore, to be hopeful regarding the willingness and ability of the authorities to meet their policy commitments. While sharing the general thrust of Ms. Lissakers' and Ms. Redifer's preliminary statement, in particular regarding the need for more details and specificity on the upcoming structural performance criteria, I am of the view that the government and people of Benin favor a concrete progress in structural reforms and that they will not be content with merely announcing changes. I welcome in this regard Mr. Barro Chambrier's reference in his buff to the improved political climate that allowed for agreement on the PRGF program we are discussing today despite the natural tensions associated to the run-up to the presidential elections to be held early next year. In any event, I side with those Directors, in particular Mr. Santos and Ms. Lissakers and Ms. Redifer, that would welcome a more forceful use of the leverage of the international financial institutions to advance the process of reforms in Benin.

With respect to the 2000/03 program I noted in the first place that the envisaged rate of annual GDP growth is barely different from the average of the past five years, when unfavorable economic conditions particularly in 1998/99 were prevalent and translated into a substantial drop in both cotton production and prices, compounded by a sharp deterioration in the terms of trade. It appears therefore, as if the comprehensive reforms program that we will be approving today will not make any material difference, vis-à-vis the recent past, in terms of the GDP growth, the cornerstone of our strategy to reduce poverty. Staff comments would be welcome.

On the fiscal front we welcome the government's intention to reach an overall balance in its fiscal position including grants even after allowing for a large increase in social spending. I have some questions regarding the large increase in the wage bill justified on the grounds of both a general pay raise and to recruit more personnel for the social sectors. I wonder how much of the projected increase in government expenditures for this year is explained by the increase in the wage bill and how much by expenditures directly aimed at alleviating social needs. In my view, to the extent that the former is the predominant factor, we would be using fiscal resources to build up the institutional framework to attack poverty, but then there will be little left to actually do it. It is difficult to see, for example, why it was necessary to increase public employment in social sectors when perhaps a shifting of personnel from other areas could have been sufficient. It is important to note that public expenditures have already grown from 16.8 percent of GDP in 1998 to the projected 19.2 percent of GDP this year and that we do not even have a consistent PRSP in place yet. I share in this regard the concerns expressed by Mr. Schollmeier and Mr. Jacoby.

On the structural front we share the importance attached by the authorities to good governance and transparency both to sustain economic growth and to reduce poverty. In this regard the projected adoption of a

national anticorruption strategy by end-September is most welcome. The effectiveness of the Ethics Unit created four years ago which is mentioned by Mr. Barro Chambrier does not appear to have been very effective on this front. To make a substantial progress I believe corruption should be attacked in many fronts. In this regard privatization should be seen not only as an effective means of increasing efficiency and productivity but most importantly as a proven way of reducing corruption. In critical areas of policymaking, as this one on privatization, it is difficult to expect general agreement on a given course action. Vested interests will always raise objections. The privatization of SONAPRA and the management transfer to private companies of the water and electricity company would serve to consolidate the government's commitment to a transparent way of conducting public business.

As to the progress already achieved in the elimination of the SONAPRA's monopsony of seed cotton I wonder to what extent this is a meaningful development since the producer price for seed cotton remains fixed directly by the authorities. Staff even says, as highlighted by Ms. Lissakers and Ms. Redifer, that the recent price cut should allow SONAPRA to break even in 2000. Since producer prices directly determine the revenue level of agricultural producers, which in turn directly impinges on living conditions and poverty reduction in the rural areas, I wonder how can we make sense of all these arguments. Moreover, I wonder what safeguards are there to avoid the fact that SONAPRA's monopsony be replaced by private sector monopolies that may lead to a much worse situation for cotton producers than the one they were facing until recently. Staff comments would be welcome.

Finally, regarding the Interim PRSP, one is left with the impression that almost everything remains to be done in order to define a consistent poverty reduction strategy. The latter notwithstanding, the final PRSP paper is scheduled for April next year, which happens to be one month after the presidential elections. It appears as an obvious conclusion that something will have to give up and I hope it is not the quality and consistency of the poverty reduction strategy.

With these comments we support the proposed decisions and wish the authorities success in their drive for growth and social development.

Ms. Redifer commended the Italian authorities for their recent decision to grant additional debt relief to poor countries, including those qualifying for assistance under the enhanced HIPC Initiative. She wondered whether the provision of interim relief by the Fund would be contingent upon the receipt of satisfactory assurances from the African Development Bank.

The inclusion of a reference to privatization in the conditions listed in box 7 of the decision point document would not constitute additional conditionality, as it would merely

reflect measures to be implemented under the PRGF-supported program, Ms. Redifer continued. Furthermore, progress on privatization was of central importance to Benin's economic future. In that respect, it would be interesting to hear the staff's opinion on the lessons learned from the privatization of SONAPRA, and on the regulatory framework currently being developed in order to define the government's new role in the cotton sector. With allegations of massive corruption at SONAPRA, an independent audit would be welcome.

With respect to the delay in circulating the staff report on the PRGF-supported program, the U.S. chair's concern was that the World Bank had been planning to proceed with the Board discussion of the HIPC decision point document without making reference to the Fund document, Ms. Redifer noted.

The Acting Chairman stated that the recently established Joint Implementation Committee would address the concern regarding circulation periods.

Mr. Fenton wondered whether the inclusion of a performance criterion relating to privatization in the conditions for reaching the completion point would delay the completion point for Benin.

The staff representative from the African Department stated that the inclusion of a reference to privatization in the completion point conditions would probably not slow down the completion point. In the utility sector, there was general agreement that the government must proceed with privatization, although vested interests—particularly the employees of the enterprises in question—remained opposed to such a move. The majority of stakeholders realized, however, that reform, including private sector management, was necessary in order to address the roots of the energy crisis in 1998. The same was true of the telecommunications sector, where there was a general understanding of the need to attract private investment in order to secure a well-functioning telecommunications system.

While the World Bank was cooperating with the authorities on plans for privatizing SONAPRA, it was currently not a priority, the staff representative related. Rather, the staff was emphasizing the introduction of more competition into the cotton sector. SONAPRA was currently acting as a lender of last resort, which was having a negative impact on its finances.

The Deputy Director of the Policy Development and Review Department stated that the provision of interim assistance by the Fund would not be contingent on the receipt of satisfactory assurances from the AfDB. The staff had in the past agreed to disburse interim assistance when assurances covering approximately 70 percent of a country's total outstanding debt had been received. While the AfDB had decided to participate in the enhanced HIPC Initiative, it had not yet made a specific decision with respect to the debt owed by Benin. However, even without assurances from the AfDB, Benin's other creditors had provided assurances amounting to a level that was adequate for the Fund to proceed with the provision of interim assistance.

Mr. Barro Chambrier thanked his colleagues for their constructive remarks on Benin's adjustment effort and for their policy recommendations. Many Directors had noted the importance of ensuring the quality of social spending and of the full PRSP, as well as the need to speed up structural reforms, especially with regard to privatization civil service reform.

Benin already had considerable experience with involving civil society, which would help ensure that the full PRSP was formulated within the framework in a participatory process, Mr. Barro Chambrier continued. It would also be important for the authorities to achieve a consensus on the reforms that must be implemented within the coming year, although some opposition was probably inevitable. In order to ensure full ownership of the program, social concerns with regard to privatization would have to be taken into consideration. The opening up of the cotton sector to competition was also controversial. If the authorities failed to allocate sufficient time to address the concerns of all the shareholders involved, the sector might become exposed to turbulence. In other countries, where privatization plans had been rushed, consequences had been dramatic. The authorities were best placed to make decisions about the proper sequencing of reforms.

As noted by Directors, progress had been achieved in the macroeconomic area, Mr. Barro Chambrier continued. While some Directors had expressed concern about the recent pace of structural reform, it was important to judge the performance of Benin in a medium term perspective. Important progress had, for instance, been achieved with regard to civil service reform, where a new pay scale had been introduced, and employment reduced by over 20 percent since 1990. Another recent reform was the adjustment of oil prices. However, the authorities were aware that much remained to be done. Reforms would be ongoing even after the completion point. It was important that the Board encourage further reforms, but it should also take into account that Benin was a new democracy, and the political process imperfect as a consequence.

The Italian authorities should be commended for the leadership they were demonstrating with regard to the enhanced HIPC Initiative, Mr. Barro Chambrier concluded. That would allow for deeper, broader and faster debt relief.

The Acting Chairman made the following summing up:

> Executive Directors agreed with the thrust of the staff appraisal. They noted that Benin's performance under the 1996-1999 program supported by a three-year PRGF arrangement was broadly satisfactory. Despite a drop in cotton production and the impact of the regional energy shortage, growth has been robust, inflation low, the overall external position has strengthened, and important reforms have been initiated. Directors underscored, however, that further progress in resolving the financial problems of the cotton sector and accelerating the implementation of key structural reforms will be essential to sustain high economic growth, diversify the economy, and reduce poverty.

Directors welcomed the government's interim Poverty Reduction Strategy Paper (PRSP) as a basis for the development of a full participatory PRSP and for Fund concessional assistance. They observed that a considerable amount of further work—as well as the broad participation of civil society—would be required to prepare well-defined, effective sector strategies and spending plans, and to foster the needed sense of ownership. Directors welcomed the government's objective of completing a full PRSP by April 2001, although some Directors noted that this timing was ambitious.

Directors emphasized the importance of maintaining budgetary discipline. They considered that the main challenge for fiscal policy is to make possible an increase—from the current relatively low levels—in high priority spending on health, education, and social infrastructure without compromising macroeconomic stability. In this context, they noted the improvement in government revenue collection, welcomed efforts to further improve tax administration and reduce tax fraud, but also urged stepped up efforts to control non-priority expenditure and, more generally, to strengthen budget preparation and execution.

Regarding structural reforms, Directors considered that an important objective should be to reduce Benin's dependence on the cotton sector. At the same time, they welcomed the authorities' decision to end the monopsony of the state enterprise, SONAPRA, on the purchase of seed cotton from producers and proceed with the privatization of the enterprise, as well as their renewed efforts to privatize the management of public utilities. Directors urged the authorities to move forcefully in implementing agreed reforms. They attached importance to reforming the civil service, including wage policy, and emphasized the need for the authorities to take strong action to improve transparency and fight corruption. Regarding the banking sector, Directors noted the level of non-performing loans and the need for corrective action. Some Directors emphasized the importance of reinforcing the privatization process for state enterprises.

Directors agreed that Benin is eligible for assistance under the enhanced HIPC Initiative in view of its status of PRGF-eligible and IDA-only country and its unsustainable external debt burden, even after taking into account relief provided under traditional debt relief mechanisms.

Directors agreed that Benin would reach the completion point when the conditions contained in Box 7 of the HIPC Decision Point Document are satisfactorily implemented (EBS/00/118, 6/26/00). These include the maintenance of a stable macroeconomic environment, as evidenced by confirmed performance under the program supported by the PRGF arrangement; the implementation of key measures, in particular in the areas of health, education, and poverty alleviation; and completion of a full PRSP developed through an effective participatory process. Directors considered it

essential for Benin to demonstrate, before reaching the completion point, broadly acceptable overall progress in poverty reduction. In this context, they underscored the importance of strengthening public expenditure management to ensure an effective implementation of the PRSP. Directors encouraged the authorities to ensure that the resources freed up by debt relief under the enhanced HIPC Initiative are applied effectively to the objective of reducing poverty.

To help achieve the external debt sustainability target of 150 percent for the net present value of debt-to-export ratio, Directors decided to grant interim assistance to Benin. In this connection, they noted that satisfactory assurances have been received from creditors regarding the exceptional assistance to be provided under the enhanced HIPC Initiative.

The Executive Board took the following decision:

Poverty Reduction and Growth Facility—Three-Year Arrangement

1. The government of Benin has requested a three-year arrangement under the Poverty Reduction and Growth Facility in a total amount equivalent to SDR 27 million.

2. The Fund notes the Memorandum on Economic and Financial Policies for 2000-03, and decides that the Interim Poverty Reduction Strategy Paper for Benin set forth in EBD/00/50, 6/27/00 provides a sound basis for development of a fully participatory PRSP, for reaching the decision point under the HIPC Initiative, and for Fund concessional financial assistance.

3. The Fund approves the arrangement set forth in EBS/00/130, 7/10/00.

Decision No. 12236-(00/71), adopted
July 17, 2000

Initiative for Enhanced Heavily Indebted Poor Countries—Decision Point

Based upon the updated external debt sustainability analysis for the Republic of Benin (EBS/00/118, 6/26/00), the Fund as Trustee (the "Trustee") of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (the "Trust"), established by Decision No. 11436-(97/10), February 4, 1997, decides:

(i) that in accordance with Section III, Paragraphs 1 and 2 of the Trust Instrument (the "Instrument"), Benin is eligible and qualifies for assistance under the enhanced HIPC Initiative as defined in the Instrument;

(ii) that the completion point for Benin will be such date when the Fund determines that:

(a) Benin has satisfactorily implemented the policy reforms described in Paragraph 57 and Box 7 of Benin's Decision Point Document under the enhanced HIPC Initiative (EBS/00/118);

(b) Benin has a stable macroeconomic position and has kept on track with its Fund-supported program; and

(c) Benin has prepared a Poverty Reduction Strategy Paper and its overall progress in poverty reduction is broadly acceptable;

(iii) that the external debt sustainability target for Benin is 150 percent for the present value of debt-to-exports ratio;

(iv) that, in accordance with Section III, paragraphs 3(a) and 3(b) of the Instrument, the equivalent of SDR 18.4 million of assistance shall be made available by the Trustee to Benin in the form of a grant to permit a further reduction in the net present value of the debt owed by Benin to the Fund;

(v) that, in connection with the interim assistance contemplated under Section III, paragraph 3(d) of the Instrument,

(a) satisfactory assurances have been received regarding the exceptional assistance to be provided under the enhanced HIPC Initiative by Benin's other creditors, and

(b) the Trustee shall disburse to Benin as interim assistance the equivalent of SDR 3.7 million to an account for the benefit of Benin established and administered by the Trustee in accordance with Section III, paragraph 5 of the Instrument; and the proceeds of the grant shall be used by the Trustee to meet Benin's debt service payments on its existing debt to the Fund as they fall due, in accordance with the following schedule: 34.9 percent of repayment obligations due in year 2000 and 32.1 percent of the repayment obligations due in year 2001; and

(vi) that in accordance with Section III, paragraph 3(e) of the Instrument, the Trustee shall disburse the remainder of the assistance committed to Benin under paragraph (iv) of this decision at the completion

point, together with interest on amounts committed but not disbursed during the interim period, calculated at the average rate of return per annum on investment of the resources held by or for the benefit of the Trust. (EBS/00/118, Sup. 1, 7/14/00)

Decision No. 12237–(00/71), adopted
July 17, 2000

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/00/70 (7/12/00) and EBM/00/71 (7/17/00).

2. ELEVENTH GENERAL REVIEW OF QUOTAS—PERIOD FOR CONSENT TO INCREASES—EXTENSION

The Executive Board approves the extension of the period for consent to quota increases under the Eleventh General Review (EBD/00/2, Sup. 1, 7/6/00).

Decision No. 12238-(00/71), adopted
July 13, 2000

3. COOPERATION WITH INVESTIGATIONS ON FUND ACTIVITIES BY AUDITING INSTITUTIONS OF MEMBERS—PROCEDURES

The Executive Board approves the procedures set forth in SM/00/97, Revision 1, (6/22/00).

Adopted July 12, 2000

4. MEMBERS OF EXECUTIVE BOARD—CODE OF CONDUCT

The Executive Board approves the Code of Conduct for Members of the Executive Board (EBS/00/108, Rev. 1, 7/7/00).

Decision No. 12239–(00/71), adopted
July 14, 2000

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 98/35 and 98/79 are approved.

6. EXECUTIVE BOARD TRAVEL

Travel by an Advisor to Executive Director as set forth in EBAM/00/81, Supplement 1 (7/12/00) is approved.

APPROVAL: March 23, 2001

SHAILENDRA J. ANJARIA
Secretary