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Revised

June 8, 2007

Statement by Mr. Duquesne on Benin
(Preliminary)
Executive Board Meeting 07/49
June 11, 2007

We welcome today's discussion on the second review under the PRGF arrangement program. We thank staff for the high quality of its report and Mr. Rutayisire for his helpful and informative Buff statement.

Given the overall performance and the authorities' steadfast commitment to implement the reform program, we support the completion of the second review of the PRGF arrangement. We also agree with the authorities' request for the nonobservance of a structural performance criterion (the operation of consolidated electronic billing at Cotonou port), in light of the corrective actions already taken by the government.

Since we broadly agree with the staff's appraisal, we would like to limit our comments to the following issues.

1/ We take note that **macroeconomic performances in 2006 were broadly satisfactory but weaker than expected.** However, to the government's credit, we observe that the terms of trade deteriorated contrary to what was initially expected (-3.1 instead of a 4.1 percent change). Despite these adverse conditions, the external current account deficit has been stabilized at around 7 percent of GDP, and the primary balance, instead of being in deficit (-0.9 percent of GDP), exhibits a surplus (0.4 percent of GDP). Authorities deserve credit for these results. It is also encouraging to note that no new domestic payment arrears were accumulated during the year. The authorities deserve credit for this notable fiscal performance. *Concerning the execution of the 2006 budget, we note an important increase in current transfer expenditures from 81.8 to 114.6 billion CFA francs between 2005 and 2006, and we would appreciate further information from staff on the exact nature of these expenditures.*

2/ We agree with staff that **economic perspectives for 2007, although they remain favorable**, are expected to be moderate as regards the ongoing cotton production and the uncertainties surrounding the electricity power supply in the region. Concerning this point, we are surprised to note that the authorities have negotiated electricity import deals with Ghana, in light of the fact that this country is confronted with serious energy shortages, as underlined in the recent article IV discussion at the board. *Could staff elaborate further on this issue ?*

3/ We take note of the fiscal program proposed by the authorities for 2007 which aims at increasing pro-growth and poverty-reduction expenditures while preserving medium-term budget consolidation. However, in order to pursue such an objective, it is essential to further **improve public expenditure management** so as to ensure the best use of available resources. Indeed, it is rather disappointing to note that only 60 percent of programmed public investment expenditures were committed during FY 2006.

4/ We would like to express our concern about **the mitigated performances of the cotton sector** with a production level 20 percent lower that expected in 2006. **We think that the authorities should accelerate reforms to revitalize this sector** which employs 350,000 workers and involves around 40% of Benin's population. We welcome the authorities' intention to withdraw government from commercial activities in the cotton sector by end-November 2007.

5/ **We are encouraged by the authorities' determination to further implement structural reforms in the electricity and telecommunications sectors.** Improving the quality of utility services is vital to enhance Benin's economic competitiveness and potential, and it would be regrettable to further delay the reform timetable. We are also pleased with the authorities' involvement in the reform of the port, which plays a major role, not only for Benin's economy, but also for the neighboring countries (Niger, Burkina Faso and above all Nigeria).

6/ We are reassured by the authorities' reaffirmation of their strong commitment to pursue a **prudent debt management policy** and to neither directly contract nor guarantee any nonconcessional loans. A reaccumulation of unsustainable debt should be avoided and it is crucial to impose a strict control on nonconcessional borrowing in order to preserve the benefits of the debt relief under the Enhanced HIPC Initiative and the MDRI, as well as cancellation of Chinese and Russian debts. We also hope that the Fund could provide adequate assistance in terms of debt management capacity.

With these remarks, we wish the authorities every success in the achievement of this program.