

BUFF/08/2

January 11, 2008

**The Acting Chair's Summing Up
Benin—Third Review Under the Poverty Reduction and Growth Facility,
Request for Waiver of Nonobservance of a Performance Criterion, and
Request for Extension of the Arrangement
Executive Board Meeting 08/1
January 9, 2008**

Executive Directors commended the Beninese authorities for the continued progress made under the program supported by the PRGF. In particular, they highlighted the strong fiscal performance, low inflation, and the pick up in economic activity. However, progress on structural reforms has remained slow, and Directors underscored the need to reinvigorate the implementation of Benin's reform agenda, which together with a continued strengthening of fiscal management, will be key to addressing economic vulnerabilities, sustaining higher growth, and securing faster poverty alleviation.

Directors praised the authorities' determined actions to strengthen revenue collection. They supported their continued efforts to improve governance at revenue agencies and their commitment to adhere to the recent Fund technical assistance recommendations in tax administration.

Directors noted the persistently low level of investment spending stemming from the weak absorption capacity. While recognizing the efforts to contain spending in line with capacity, they encouraged the authorities to deepen and expedite reforms to raise the rate of execution of the investment budget, while ensuring that the composition of spending supports the objectives of Benin's poverty reduction strategy. They strongly supported the ongoing efforts to strengthen public expenditure management, and looked forward to the early completion of the audit of public finance management information systems and the early implementation of recommendations from the audit. Directors also called for continued rigorous adherence to prudent wage and debt policies to ensure fiscal sustainability. In this context, they noted the importance of closely monitoring new debt, including debt contracted in the regional market.

Directors regretted that the attempt to privatize the cotton ginning factories has been unsuccessful, while acknowledging the reasons for the government's decision to cancel the bidding process. Directors were generally encouraged by the authorities' commitment to complete a thorough overhaul of the sector. They emphasized the need for the reform of the sector to secure an enhanced private sector role in the determination of producer prices as well as in the importation of fertilizers and other inputs. They encouraged the authorities to

move speedily ahead with reformulating their cotton sector strategy and welcomed their decision to build consensus through consultation with stakeholders.

Directors took note of the planned selection of strategic partners for the electricity and telecommunications sectors in 2009. They welcomed the authorities' commitment to involve reputable external expertise in the Port of Cotonou management, which should enhance trade flows and competitiveness. Directors encouraged the authorities to expedite reforms in the financial sector, the land tenure systems, and in the judiciary. They emphasized that such actions, together with steps to improve transparency and governance, are essential for creating a business environment that supports private sector development and economic diversification.