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Statement by Mr. Prader and Mr. De Lannoy on CEMAC
(Preliminary)
Executive Board Meeting 09/113
November 13, 2009

We thank the staff for their comprehensive and interesting report and Mr. Rutayisire for his Buff statement. We broadly agree with the staff appraisal.

In light of the crisis, the need to support the economy and the focus on anti-crisis measures, particularly for the poor, is justified. We concur with the staff that in the medium-term the non-oil primary deficits should be reduced to sustainable levels. Oil revenues, finite by nature, and unavailable to the majority of African countries, provide an opportunity for additional pro-growth spending, to invest further in human capital and to reduce poverty faster than would have been otherwise possible. Given the region's dependence on commodity exports, more emphasis should be placed on diversification, and CEMAC countries should review the current BEAC instruments, or introduce a new, attractive regional instrument, to smoothen the volatility linked to commodity export prices.

Adherence to the convergence criteria is an important condition for long-term viability of a monetary union. The pursuit of unsustainable policies by one or several members of the monetary union will eventually have an impact on the monetary union as a whole.

The staff has recommended that under special circumstances and in consultation with Fund staff, it may be appropriate for national authorities to have access to the SDR allocations, which are part of the region's pooled reserves. We understand from Mr. Rutayisire's Buff statement that regional authorities have already approved a decision to allow the use of the SDR allocations by national authorities. We are concerned that countries may use SDRs as fiscal revenues rather than as international reserve assets. In this regard, it would be helpful if in future reports, the staff could provide an update on the use of such funds, its appropriateness and whether the respective Fund country staff were consulted.

We agree with the staff that providing long-term financing to development banks is not part of the central bank's mandate. The credit line provided to BDEAC should have been financed from national budgets.

The staff has rightly emphasized that the private sector must be the main driver of non-oil growth. In order to reach its growth potential and substantially reduce poverty, the region's business climate needs to be improved. The region's performance in the latest World Bank Doing Business indicators is telling, and little progress seems to have been made over the years. Also, despite the economic and monetary community, formal intra-regional trade remains relatively low. The report could have benefited from examples of the many barriers to trade and doing business. The authorities will have to reduce both formal and informal impediments. Do they have any concrete plans with timetables to improve the overall business climate, reduce the costs of doing business, and facilitate trading across borders?

We welcome the progress made in implementing the 2006 FSAP recommendations. However, the lack of effective supervision of the financial sector because of human capacity constraints is worrisome and needs to be addressed urgently. Ineffective supervision combined with the intention of introducing regional deposit insurance risks is creating a moral hazard. Like the staff, we urge the authorities to undertake an in-depth study before going ahead. In the case of the Chadian subsidiary, we agree with the staff that state support for the bank's restructuring should be part of a comprehensive restructuring plan addressing the problems identified by COBAC.

The fraud in the operations of the BEAC's Paris office is regrettable and unacceptable. The scale of the fraud, up to 29 million EUR to date, compared to the Paris' office annual budget of less than 1 million EUR, is not properly reflected in the paper. It is impossible for fraud at such an enormous scale not to have been noticed, which implies the involvement of a great number of people up to the highest level. We therefore urge BEAC and the authorities to cooperate fully with the Fund staff and resolve this matter in an open and transparent manner. We thank the staff for the update on this issue, but would like to receive more detailed information on BEAC's total budget to put the fraud into perspective. We welcome the measures taken so far to safeguard Fund resources and look forward to further progress in resolving this case.

Finally, as mentioned in our last year's statement, we regret that the Staff Report does not include a Box on the follow-up with the authorities of past Fund recommendations. We would appreciate a short, structured assessment of the follow-up and hope that this Box will be included in future reports.