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GRAY/09/4061

November 12, 2009

**Statement by Mr. Sadun and Mr. Cardoso on CEMAC
(Preliminary)
Executive Board Meeting 09/113
November 13, 2009**

We thank the staff for their detailed report and Mr. Rutayisire for his insightful and helpful Buff statement. We broadly agree with the staff analysis, but we would like to emphasize some important issues.

The revealed weakness of BEAC governance is an issue of serious concern at several levels. It is regrettable that such a weakness has passed unnoticed in that extent for so long! We strongly support the measures to fully investigate this fraud and to strengthen BEAC's governance. We urge staff to raise some red flags on other potential cases of fraud, with particular incidence for the ones that may impact the safeguard of Fund resources.

We are somewhat reassured by the staff's consideration that the authorities have now implemented the initial actions that are needed to enable immediately forthcoming CEMAC country reviews to be presented to the Board. Since four out of the six BEAC members currently have an IMF-supported program, a situation in which BEAC country reviews would have to be on halt until the implementation of the necessary safeguards — although absolutely imperative — would have been very disruptive. We commend the authorities for promptly complying with the initial safeguards defined by staff and we urge them to continue working closely with staff during the subsequent phases of governance strengthening. *Given the exceptional circumstance of this case, we see merit in a more periodic monitoring and follow-up to the Board on the progresses of the authorities' compliance with staff's requested measures. Staff comments are appreciated.*

We note on ¶17 that BEAC has provided a credit line to BDEAC, a development bank. *We would appreciate staff's elaboration if this operation can be characterized as monetary financing. Is monetary financing interdict under BEAC's regulations?*

Yet on governance, we would appreciate staff's clarification on the statement of ¶32 "Gabonese authorities arrested key figures implicated in the scandal and recalled BEAC's governor, all of whom are Gabonese citizens". *What does staff exactly mean by "recalled BEAC's governor"? What is the involvement and responsibility of BEAC's governor in this fraud case?*

We commend staff for accepting our correction to ¶18 and footnote 2, but we would have preferred if staff had redrafted this paragraph since the reasoning of what the paragraph intends to say is now different. We also consider this paragraph inaccurate and we fully share Mr. Fayolle's comments. Regarding ¶5, we find it misleading, and we regret that it has not been clarified.

Yet on ¶18, we are concerned about the huge loss associated with the violation of BEAC's investment rules. This is an issue that should have clearly raised red flags and, accordingly, should also be investigated. Additionally, this issue will be under strategic and operational reform. Therefore, *we also see merit in a more periodic monitoring and follow-up to the Board on the progresses of the investigation and on the authorities' compliance with staff recommendations. Staff comments are appreciated.*

On the SDR's allocation and use, we note from Mr. Rutayisire's Buff statement that the regional authorities recently approved a decision permitting the use of these resources by the national authorities in order to allow them to use the allocation of the SDR's for fiscal or balance of payments needs. We share Mr. von Stenglin and Ms. Meyer's position on this matter, and we urge the national authorities to adopt a prudent approach on the use of these unconditional resources. We support staff's monitoring and reporting to the Board on the use of SDR resources.

Regarding the exchange rate analysis, we share the concerns on the uncertainty of such analysis. The release to the public of some assessments and recommendations on this matter should be carefully pondered.

Like Mr. Prader and Mr. De Lannoy, we support that future staff reports include a Box on the follow-up with the authorities of past Fund recommendations.