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BENIN

January 2013

Benin: 2012 Article IV Consultation and Fourth Review Under the Extended Credit Facility Arrangement—Staff Report; Staff Supplements; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2012 Article IV consultation with Benin and Fourth Review under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- The staff report for the combined 2012 Article IV consultation and fourth review under the Extended Credit Facility arrangement, prepared by a staff team of the IMF, following discussions that ended on July 30, 2012, with the officials of Benin on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 26, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Financial Sector Review prepared by the IMF.
- Debt Sustainability Analysis prepared by the staffs of the IMF and the World Bank.
- Informational Annex prepared by the IMF.
- Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its November 9, 2012, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- Statement by the Executive Director for Benin.

The documents listed below have been or will be separately released.

- Letter of Intent sent to the IMF by the authorities of Benin*
- Technical Memorandum of Understanding *
- Financial Sector Review*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

BENIN

October 26, 2012

2012 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

KEY ISSUES

Context. Real GDP growth is projected at about 3½ percent in 2012, and to increase moderately in 2013. Benin is strongly interconnected with Nigeria, including through the supply of most of its fuel. The reduction of Nigerian fuel subsidies in early 2012 caused inflation to rise sharply, but only temporarily.

Program implementation. All quantitative performance criteria and targets were met, but earlier reforms to the cotton sector and a key component of the customs reform program were suspended. Revenue targets and performance criteria on the basic primary balance and net domestic financing were met, as were all indicative targets, including on social expenditure, in March and June 2012. Some structural measures were implemented, but most others were postponed because of difficulties with donor financing and the suspension of the import-verification program. The authorities have committed to re-launching the reforms, progress on which would be monitored in the next review.

Article IV consultation. Discussions focused on the stabilization achieved over the first two years of the program, in spite of severe shocks, and also on the challenges ahead to achieving sustainable, higher growth.

Challenges. Going forward, the key policy priority is to increase growth and to make it more inclusive. While macroeconomic performance has strengthened in recent years, growth has been modest and insufficient to reduce poverty. Larger public investment, and measures to promote greater private sector participation in the economy, including by improving the business environment, should underpin the country's strategy. They should be buttressed with measures to improve financial intermediation. This will require, among other things, strengthening the financial soundness of the banking and microfinance sectors.

Risks. Risks to the economy include a persistence of difficulties at the Port of Cotonou, and continued suspension of the import-verification program—they would curtail growth and reduce fiscal revenue. Developments in Nigeria, including a further reduction of fuel subsidies, changes in trade restrictions, and other policy decisions could weaken economic activity in Benin. Risks to program performance include wage slippages and continued delays in the implementation of structural reforms.

Approved By
Michael Atingi-Ego and Peter Allum

The consultation mission comprised Mr. de Zamaróczy (head), Mmes. Macario and Zdzienicka, and Mr. Wiseman (all AFR). Mr. Farah, the IMF's resident representative and Mr. Houessou (resident office), ably assisted the mission. Messrs. Assimaidou and Nguema-Affane (OED) attended key meetings. The discussions took place in Cotonou July 16-30, 2012. The mission met with President Yayi, Prime Minister Koupaki, Minister of Development de Souza, Minister of Finance Gbian, National Director of the Central Bank of West African States (BCEAO) Bonou; and other senior officials, members of the National Assembly, and representatives of labor unions, the private sector, and the donor community. A follow-up financial mission, comprising Messrs. de Zamaróczy (head, AFR), Branger (MCM expert), Nsengiyumva (MCM), and Strobbe (World Bank), visited Cotonou September 11-17, 2012. The last Article IV consultation was concluded on May 27, 2010. Benin is an Article VIII country and has no exchange rate restrictions subject to IMF jurisdiction. Benin is a member of the West African Economic and Monetary Union, and shares a common currency, a common pegged exchange rate, and common external tariffs with other members of the union. Monetary and exchange rate policies are conducted by the BCEAO. Benin accepted the IMF's quota and voice reforms.

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Selected Abbreviations

AFRITAC West	Africa Regional Technical Assistance Center West
AIC	*Association Interprofessionnelle du Coton* (Professional Association of Cotton)
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASYCUDA	Automated System for Customs Data
AV	*Attestation de Vérification* (Inspection Certification)
BCEAO	*Banque Centrale des États de l'Afrique de l'Ouest* (Central Bank of West African States)
CFAF	*Communauté Financière Africaine Franc* (CFA Franc)
DGDDI	*Direction Générale des Douanes et Droits Indirects* (Customs Directorate)
DGID	*Direction Générale des Impôts et des Domaines* (Tax Directorate)
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ESA	External Stability Assessment
FAD	Fiscal Affairs Department, IMF
FNRB	*Fonds National des Retraites du Bénin* (National Pension Fund)
GDP	Gross Domestic Product
GPRS	Growth and Poverty Reduction Strategy
IMF	International Monetary Fund
IVP	Import-Verification Program (*Programme de Vérification des Importations*)
JSAN	Joint Staff Advisory Note
LIC	Low-Income Country
LOI	Letter of Intent
MCM	Monetary and Capital Markets Department, IMF
MDG	Millennium Development Goal
NPL	Nonperforming Loan
PAP	Priority Action Program
PIP	Public Investment Program
PSIP	Public Sector Investment Program
REER	Real Effective Exchange Rate
SDR	Special Drawing Right
SIGRH	*Système Intégré de Gestion des Ressources Humaines* (Integrated Human Resource Management System)
SSA	Sub-Saharan Africa
TIN	Taxpayer Identification Number
TMU	Technical Memorandum of Understanding
TOFE	*Tableau des Opérations Financières de l'État* (Government's Flow-of-Funds Table)
VAT	Value-Added Tax
WAEMU	West African Economic and Monetary Union (*Union Économique et Monétaire Ouest-Africaine*)

ROBUST MACROECONOMIC PERFORMANCE, BUT A NEED FOR STRONGER GROWTH

A. Background

1. **Since the beginning of the Extended Credit Facility (ECF) arrangement, Benin has made significant progress in consolidating macroeconomic stability.** Real growth has rebounded after the 2010 floods, and is projected at about 3½ percent in 2012, the same level as the year before (Figure 1). Prudent fiscal policy has kept fiscal deficits at manageable levels and has yielded basic primary surpluses during most of the period. This policy, combined with the benefits of the Highly Indebted Poor Countries and the Multilateral Debt Reduction Initiative, has kept public debt low, at about 32 percent of GDP. Appropriate monetary policy by the Central Bank of West African States (BCEAO) has helped keep inflation low at about 2½ percent in 2010-11. The external current account deficit has remained broadly stable, and the balance of payments deficit was about 5 percent in 2011.

2. **Economic growth, however, has been insufficient to make a significant dent in poverty.** Per capita income has remained stagnant for several years, over half of the population lives on less than one dollar a day, and Benin's ranking in the Human Development Index is low.[1] When compared to its peers in the West African Economic and Monetary Union (WAEMU) and in sub-Saharan Africa (SSA), Benin lags in per capita growth performance. Low public investment and the high cost of doing business, in a context of a high public wage bill share in government spending, have hampered progress in addressing Benin's large infrastructure gap.

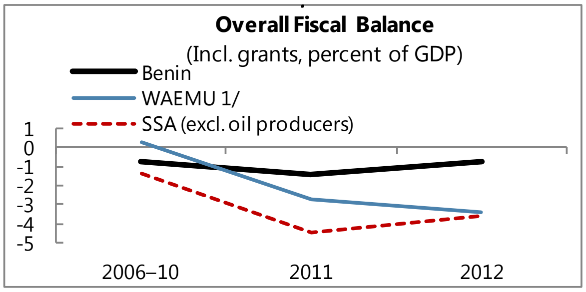
3. **The economy remains vulnerable to shocks.** Benin is a net importer of food and fuel, and as such, is exposed to shocks from the global and regional environment. This was demonstrated by the adverse impacts of the 2008 world food price crisis and the early 2012 fuel price hike emanating from Nigeria. Benin is also prone to recurrent flooding, of which the 2010 occurrence was particularly devastating. Furthermore, the country has a narrow export base—cotton represents 17 percent of total exports—which makes export performance sensitive to price fluctuations of a single commodity and global demand shocks.

4. **Benin's banking system is concentrated and shallow.** There are 12 banks, with the four largest of them accounting for about 70 percent of deposits. Pan-African banking groups—who have been spared thus far from the effects of the sovereign debt crisis in the euro area—are the main players, along with one large French bank. There are also a large number of microfinance institutions, which account for about 9½ percent of total financial sector loans and supply financial services to households and microenterprises. The prevalence of information asymmetries, insufficient creditor rights, and a weak judiciary system hamper financial intermediation.

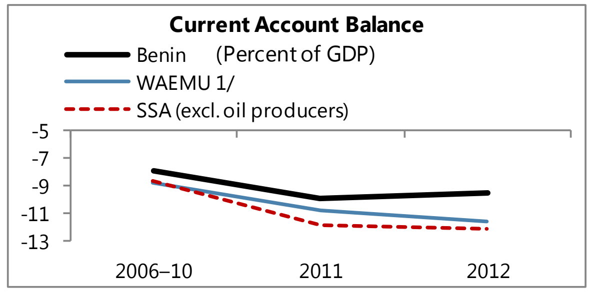
[1] Poverty declined from 37.2 percent in 2006 to 35.2 percent in 2009, but it is estimated to have risen to 36.2 percent in 2011 (2011-15 PRSP). Benin is ranked 167 out of 187 countries in the 2011 Human Development Index.

Figure 1. Benin: Macroeconomic Performance Vis-à-Vis Peers, 2006–12

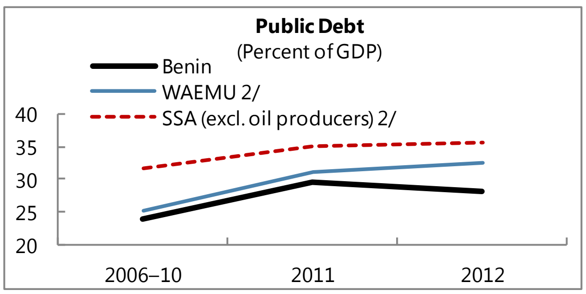
Benin has strengthened its macroeconomic performance in recent years, producing a lower fiscal deficit…



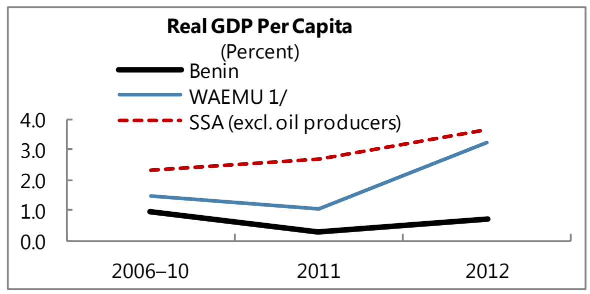
…as well as a lower current account deficit…



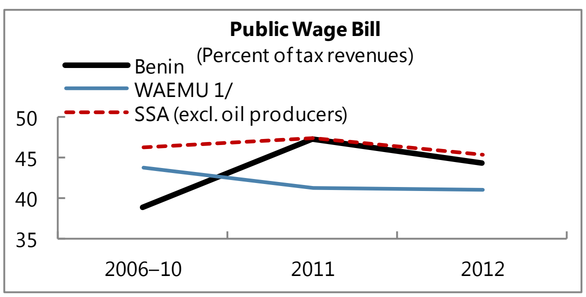
…and a lower public debt than its peers.



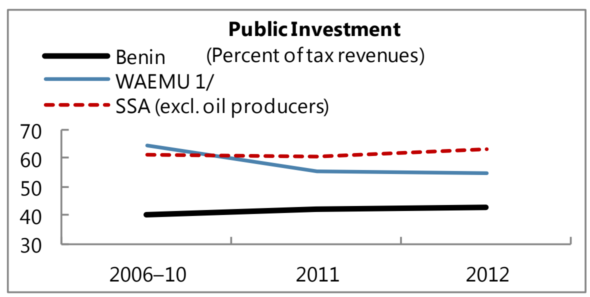
Nevertheless, growth has not been sufficient to reduce poverty …



… in part because a high public wage bill …



… has been crowding out public investment.



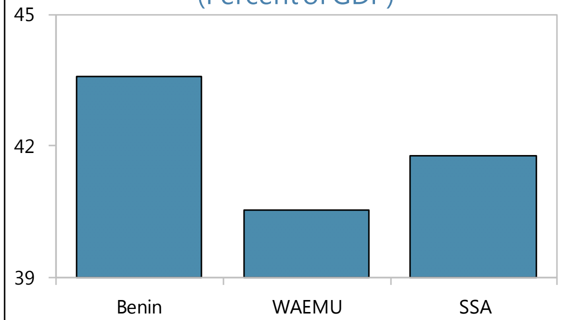
Sources: Beninese authorities; IMF staff estimates.
1/ WAEMU does not include Côte d'Ivoire.
2/ HIPC-eligible countries that had not concluded the HIPC and MDRI processes by 2006 were excluded from these averages.

5. The microfinance sector is insufficiently supervised, and a number of microfinance institutions are troubled. While microfinance institutions are now subject to tighter regulation, following the Ponzi schemes that unraveled in 2009–10, only 30 percent of them are currently operating with a license. A number of microfinance institutions are insolvent or undermined by serious governance problems.

6. The Beninese economy is deeply interconnected with that of Nigeria (Box 1). This gives rise to vulnerabilities but also provides opportunities. Developments in Nigeria, including trade policy decisions (e.g., the list of prohibited imports, customs tariffs, fuel subsidies, and enforcement of border controls) have important fiscal and economic implications for Benin. It is estimated that almost 50 percent of imports moving through the port of Cotonou are destined for Nigeria. At the same time, Benin's proximity with Nigeria provides the country with opportunities to foster new sources of exports and growth.

7. Much of Benin's formal economy is oriented towards commerce and related services. The latter are associated with transit trade to Nigeria and other neighboring countries. Benin's services sector is large when compared to those of other countries in the region and in SSA, and it absorbs a large share of commercial banks' loan portfolios.

Benin: Service Sector Share, 2011
(Percent of GDP)



Sources: Beninese authorities; IMF staff estimates.

8. Progress on the recommendations of the 2010 Article IV consultation focused on implementing the structural reform agenda and prudent macroeconomic policies. A considerable fiscal adjustment was needed to preserve fiscal sustainability (the overall fiscal deficit had more than doubled since 2008). Recommendations also emphasized the need to contain the wage bill, in order to safeguard fiscal space for priority spending, and to improve competitiveness. Since the 2010 consultation, fiscal sustainability has been largely restored, but the wage bill remains high, crowding out priority spending. The reform agenda has progressed, albeit much slower than expected. There have been no changes to Benin's measures related to payments and transfers for current international transactions since the last Article IV consultation, including to those imposed solely for security reasons.

Box 1. Benin-Nigeria Interrelations

Nigeria's GDP is about 33 times larger than that of Benin. The interrelations between the two economies are asymmetrical and are critically important for Benin. Trade and financial relations between the two countries proceed through the following channels:

- **Fuel prices and subsidies.** About 85 percent of the gasoline sold in Benin is smuggled from Nigeria, dwarfing the provision of gasoline in the formal market and drastically reducing the number of operating gas stations. Nigeria's decision to cut fuel subsidies by half in early 2012 was immediately and fully passed through to the informal gasoline market in Benin, increasing average annual inflation from 1.8 percent in the last quarter of 2011 to 6.5 percent in the first quarter of 2012, and dampening domestic demand as households adjusted to higher fuel prices. The implicit subsidy provided by Nigeria to consumers in Benin through cheap fuel is unknown but deemed significant.

- **Trade.** Estimates suggest that about half of imports going through the Port of Cotonou are destined for Nigeria. The top imports that move through the port include frozen poultry, used cars, and textiles. Nigeria's main exports to Benin are construction materials, cosmetic products, alcoholic and soft beverages, and cocoa derivatives.

- **Fiscal revenue.** Tax revenue on goods going to Nigeria was estimated at about 14 percent of total tax revenue (2.4 percent of GDP) in 2007, which highlights Benin's fiscal dependency on policy decisions in Nigeria.[1]

- **Financial sector.** Three large Nigerian banks operate in Benin. They hold about 20 percent of total deposits and provide a similar share of total credit. Banks in Benin derive significant fees from CFA franc/naira exchange operations, which fuel a largely cash-based informal trade.

- **Migration and remittances.** Nigeria is an important destination for emigrants from Benin, and an important source of remittances, although data are not available.

[1] Geourjon, Chambas, and Laporte, *Benin: Modernization of the Fiscal System*, IMF, Fiscal Affairs Department, 2008.

B. Recent Economic Developments

9. Economic activity is showing signs of improvement, but has been saddled with recurrent problems. Real growth in 2011 reached 3½ percent, despite elections early in the year and disruptions at the Port of Cotonou, because of resistance to customs reforms (Figure 2 and Letter of Intent—LOI—Appendix I,¶7). Further increase in growth in 2012 has been stymied by higher fuel prices, and by renewed disruptions at the Port of Cotonou (Box 2). Staff projects real growth in 2012 at 3½ percent, but the authorities are more sanguine on account of their more optimistic outlook for the 2012/13 cotton harvest (Box 3 and Appendix II).

Box 2. Suspension of the Import-Verification Program

In April 2012, the government suspended the import-verification program (IVP). The IVP was a component of a comprehensive customs reform program implemented in 2011, despite significant initial opposition, including from customs officers and private operators.

The authorities indicated that the IVP had been suspended because the Beninese company, which had won the contract on the basis of its partnership with a reputable international partner well versed in pre-shipment import valuation, was unable to maintain the technical partnership and thus was not able to fulfill the technical aspects of the program.

The authorities further noted that the company charged excessive fees for scanning and tracking services, making the Port of Cotonou uncompetitive. Importers complained about significant delays in container processing that, together with high storage fees, led to some containers being abandoned in the port. These difficulties led to a diversion of ships to other ports in the region, reducing activity at the Port of Cotonou. There were also governance issues, including difficulties in getting data and information from the company.

Since the suspension, customs have reverted to the practices used before the introduction of the IVP. In particular, pre-shipment inspection, scanning operations, and electronic monitoring of transit goods were suspended.

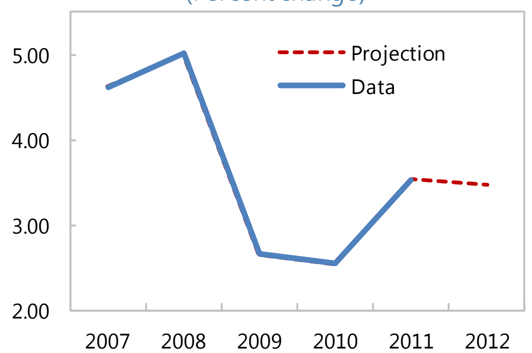
10. Some prices surged in early 2012, but inflationary pressures have abated since then (LOI ¶8)**.** The elimination of fuel subsidies in Nigeria in January 2012 raised informal gasoline prices in Benin initially by more than 120 percent, but a few weeks later, after the subsidies elimination was partially reversed, the domestic price hike settled around 50 percent. It translated into a 6 percent increase in inflation (January-July, year-on-year) from less than 2 percent at end-2011, thus breaching the 3 percent regional convergence criterion. The increase in the price of informal fuel spread mostly to transportation and food prices. Excluding these items, there is, however, little evidence of persistent inflationary momentum in the rest of the consumer price index of this shock. Core inflation, which excludes fuel and transportation, was little affected owing to minimal second-round effects. The recent spike in international food prices has so far not had a notable impact in Benin given the country's ability to supply basic staples with domestic production.

11. Banks have continued to increase their domestic assets, but financial intermediation has remained limited. They increased lending to the private sector, despite problems at the port, but also invested in sovereign bonds. Credit growth was about 11 percent (year-on-year) in June 2012. Banks also increased their purchases of WAEMU government bonds on the regional market.

Figure 2. Benin: Recent Economic Developments, 2007–2012

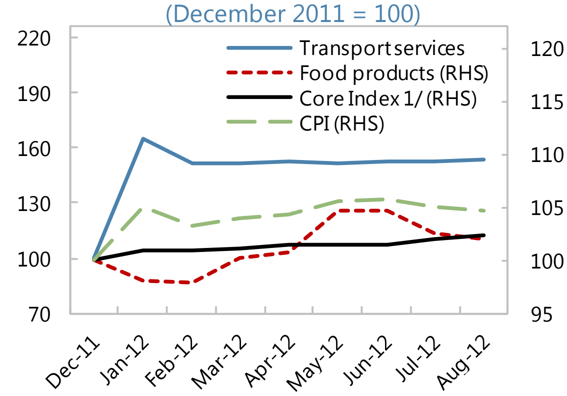
Real GDP has recovered moderately from the 2010 floods...

Real GDP
(Percent change)



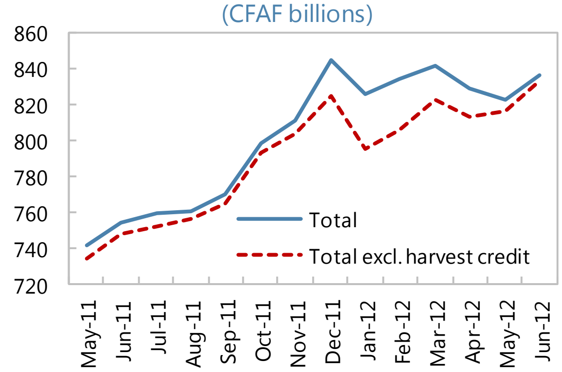
... while the fuel price shock has not affected core inflation.

Price Indices
(December 2011 = 100)



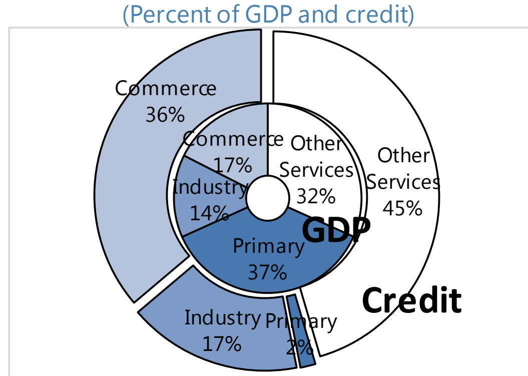
Private sector credit growth continues ...

Credit to the Private Sector
(CFAF billions)



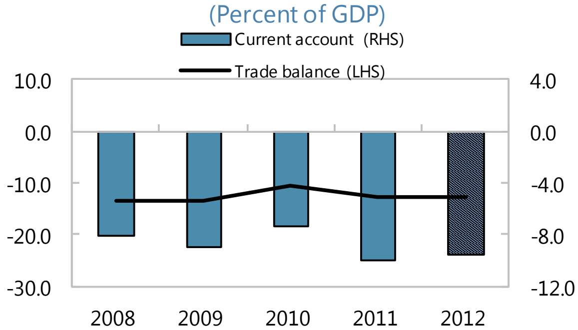
... dominated by commercial activities.

Sectoral Shares, 2011
(Percent of GDP and credit)



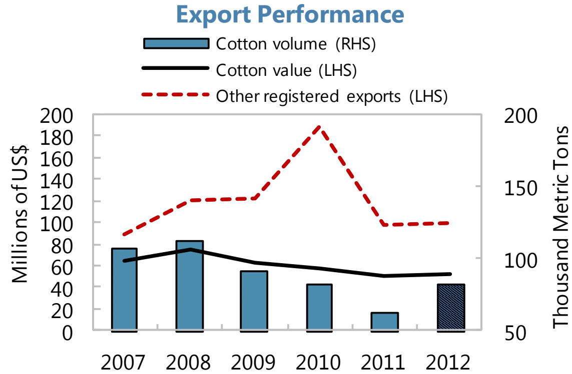
The current account deficit has remained broadly stable...

External Sector Indicators
(Percent of GDP)



...in line with export performance.

Export Performance



Sources: Beninese authorities; IMF staff estimates.
1/ Core Index excludes food products and transportation services, including fuel.

Box 3. Suspension of the Framework Governing the Cotton Sector

Over the past decade, Benin has taken steps to liberalize the cotton sector. Recent efforts, however, resulted in excessive concentration of a large portion of the sector, and declining cotton harvests.

These failings of the liberalization effort led the government to suspend the cotton sector framework temporarily in April 2012, while it develops a new framework that preserves competition and better serves farmers. The suspended agreement had entered in force in 2009 as the culmination of a decade-long reform effort to privatize cotton production and trade. During that period, the state progressively withdrew from organizing, buying, ginning, and trading cotton. By 2009, the role of the state was essentially reduced to providing subsidies for inputs (fertilizers, herbicides, and pesticides). The private sector's control of the sector was centered on the Professional Association of Cotton (*Association interprofessionnelle du coton*, AIC), which grouped the country's 18 gins, constituting the sector's backbone. Members of the AIC used to borrow sizable "campaign loans" (*crédit de campagne*) from commercial banks to finance the production cycle. They provided farmers with inputs on credit at the beginning of the sowing season, bought the entire harvest at the nationwide official price, and, after processing it, sold it almost exclusively abroad.[1] Cotton is mostly produced on small family plots, and is grown by farmers with little to no access to the financial system.

Cotton production steadily declined until the 2011/12 campaign, from an all-time high of 427,000 metric tons in 2004/05. The AIC invoked several factors to explain the decline, including inclement weather conditions (droughts and recurrent flooding), low international prices, and late payments to producers, all of which resulted in a growing disaffection of farmers for cotton.

The government acknowledged these adverse factors, but considered them compounded by governance problems. It noted that the volume of production had declined in spite of increasing subsidies. It also noted that the privatization of the sector, rather than fostering competition, resulted in the vertical concentration of the sector in the hands of one group, leading to actual "private monopoly." In light of the above developments, the authorities suspended the AIC and the framework agreement, and took over the organization of the 2012/13 campaign from end-to-end. The area cultivated has increased by some 60 percent compared to the previous campaign. Accordingly, and with favorable rainfall, at end-September the authorities assessed prospects for the forthcoming harvest favorably, in spite of some reported initial difficulties in the timely distribution of fertilizers and pesticides. They expect the new harvest will exceed the last one.

Authorities are considering implementing a zoning system modeled on Burkina Faso's cotton sector and have solicited advice from development partners, including the World Bank. A well-designed framework needs to be carefully considered, thus authorities anticipate having it ready in time for the 2014/15 campaign. Appendix II discusses developments in the sector in more detail.

[1] Ginning produces cotton fiber and cotton seeds. Virtually all of the fiber is sold abroad, but some of the seeds are sold domestically for cotton oil production.

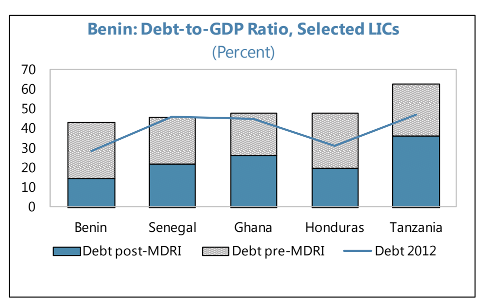
They have strong incentives to invest in sovereign bonds, which are easily refinanced at the BCEAO with a margin, and are statutorily classified as having "zero risk," so they do not require capital provision. The BCEAO lowered its reserve requirement to 5 percent in March 2012 and its key policy rate to 3 percent in June 2012, which freed up funds that the larger banks used to increase their holdings of regional sovereign bonds. However, because banks are overly liquid and have incentives to buy sovereign bonds, these measures had little effect on credit volume and cost. Supplement 1 on the financial sector in Benin analyses these developments in detail.

12. Overall, the banking system appears sound, but the regulatory prudential norms do not take full account of risks and two banks are troubled (LOI ¶17)**.** Taken together, commercial banks' capital-adequacy ratio was about 10½ percent (at end-2011), above the 8 percent regulatory threshold. When assessed individually, three smaller banks have failed to comply with regional capital requirements. Two banks have negative capital, and are under close surveillance by the monetary authorities. The third bank, which had been insolvent for several years, was closed in March 2012 and is being liquidated. In addition, banks' overall loan portfolios deteriorated, with nonperforming loans (NPLs) amounting to 18.6 percent of total loans in July 2012. The concentration on a few large borrowers in loan portfolios is another source for concern.

13. In 2012, the external current account deficit is projected to narrow somewhat, reflecting, among others, higher official transfers. Despite lower international cotton prices, higher volume of cotton exports and a recovery of non-traditional exports should slightly improve export performance. This, together with moderate import growth and higher official transfers, is expected to reduce the current account deficit from 10 percent of GDP in 2011 to about 9½ percent of GDP in 2012. Higher foreign direct investments, project loans, and the expected repatriation of banks' net foreign assets are projected to increase the financial account balance from 1.9 percent of GDP in 2011 to 5.6 percent of GDP in 2012. The overall balance of payments deficit is thus projected to contract from almost 5 percent of GDP in 2011 to about 1¾ percent in 2012.

14. The external stability assessment indicates a deterioration of external position and competitiveness, and a moderate real exchange rate misalignment. Empirical assessment of the external stability suggests that the current account deficit, in percentage of GDP, exceeds its medium-term equilibrium norm by about 4 to 6 percentage points. The real effective exchange rate (REER) is estimated to be overvalued by 15 percent on average. At the regional level, the REER remains, however, broadly in line with medium-term fundamentals.[2] Survey-based structural indicators confirm these findings and reveal impediments to external competitiveness. Appendix III provides the details of the analyses.

15. Benin's risk of debt distress remains low. External debt, mostly consisting of official concessional loans from multilateral creditors, has stabilized at about 17½ percent of GDP in 2012. Domestic debt has increased somewhat (from about 14 to 15½ percent of GDP) because of government debt issuance on the regional bond market. Benin's debt burden compares favorably with that of comparable low-income countries.



[2] IMF Country Report No. 12/59.

C. Strong Quantitative, Mixed Structural Program Implementation

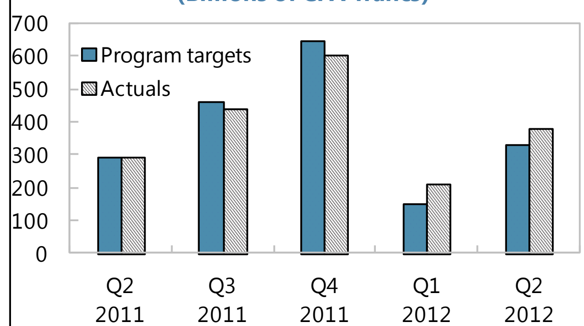
16. All performance criteria and quantitative targets were met at end-March and end-June, 2012, sometimes with comfortable margins (Text Table 1 and LOI Table 1).

- During the first quarter, revenue continued to recover from the shortfall resulting from the opposition to customs reforms in 2011 (Figure 3). The sale of a 3G mobile phone license raised additional and un-programmed revenue (CFAF 44 billion, 6.2 percent of projected total revenue in 2012), providing a buffer for the rest of the year. Spending was kept broadly under control, and thus the performance criteria on the primary fiscal balance and net domestic financing were met at end-March (test date). The same trends continued during the second semester and the corresponding targets were also meet at end-June (not a test date).[3]

- The indicative targets on priority social spending at end-March and end-June were met for the first time, thanks to the implementation of a better monitoring system.

- On the downside, spending on investment was lower than programmed, both for domestically and for externally financed projects. The lagging behind in the implementation of the investment program has been a recurrent issue in the last few years.

Benin: Total Revenue, 2011–12
(Billions of CFA francs)

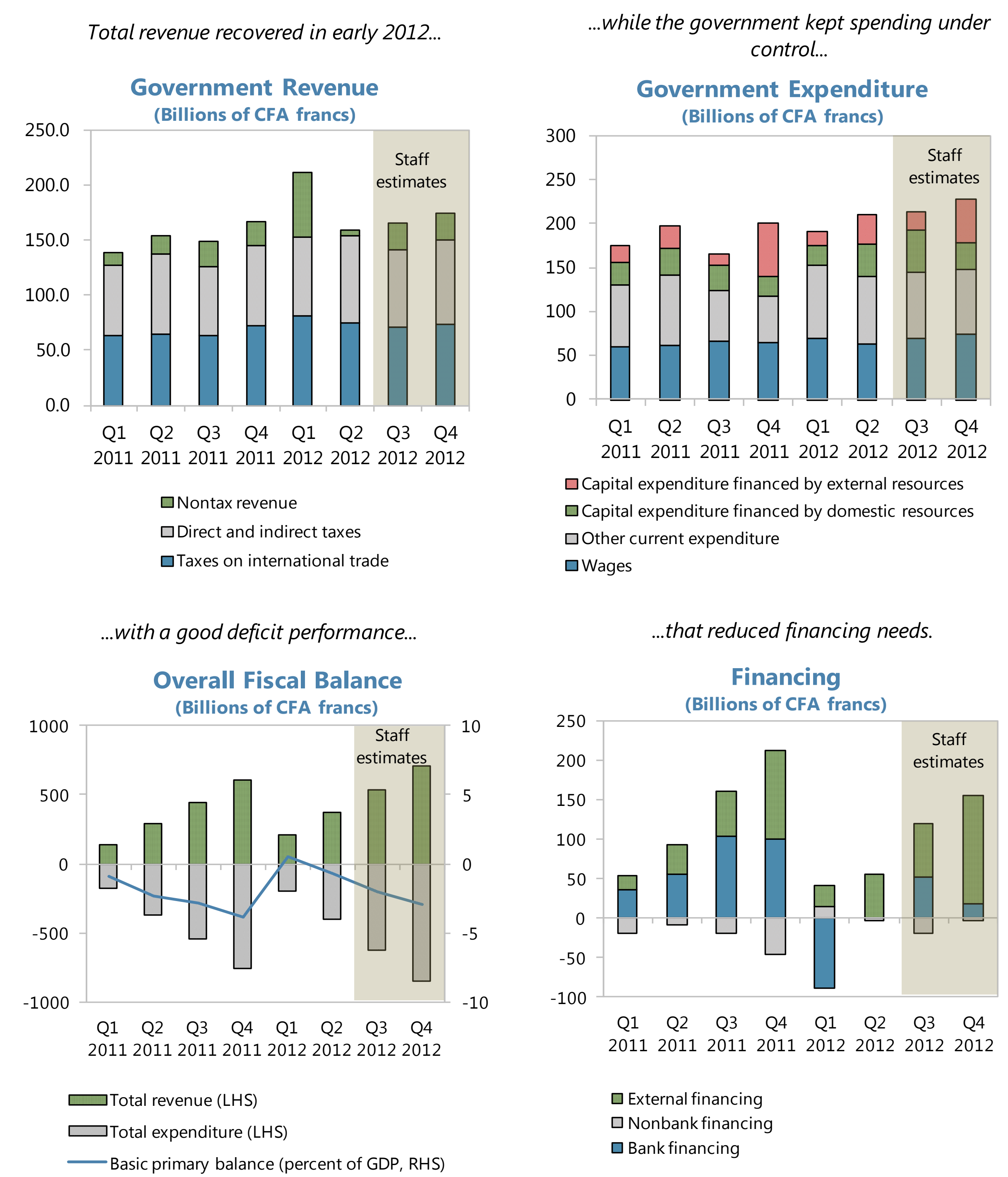


Sources: Beninese authorities; IMF staff estimates.

17. Implementation of structural reforms was mixed (LOI Table 2). The authorities implemented 5 of the 11 structural measures programmed for the fourth review, while the other measures were delayed. Some of the measures were delayed in part because of delays in technical and financial assistance

[3] The performance criteria and quantitative benchmarks would have been met with large margins even without the one-off mobile phone license sale.

Figure 3. Benin: Selected Fiscal Indicators, 2011–12



Sources: Beninese authorities; IMF staff estimates.

from donors. Other measures—including those to avoid tampering with customs declarations and to connect the IVP data to the one-stop window in the port—were in the process of being implemented, when the suspension of the IVP brought them to a halt. The liquidation of a failed bank (programmed for September 2012, LOI¶ 16), however, was carried out earlier than projected, with a liquidator appointed in March 2012. Two structural benchmarks relating to the Integrated Human Resource Management System (SIGRH) have been released since the last review and are being monitored by the World Bank.

Text Table 1. Benin: Performance Criteria and Indicative Targets, 2011–12

	2011		2012	
	End-Sept. Performance Criteria	End-Dec. Indicative Targets	End-March Performance Criteria	End-June Indicative Targets
A. Quantitative performance criteria				
Net domestic financing of the government (ceiling)	Met	Met	Met	Met
Basic primary balance (excluding grants) (floor)	Met	Met	Met	Met
B. Continuous quantitative performance criteria (ceilings)				
Accumulation of external payments arrears	Met	Met	Met	Met
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year	Met	Met	Met	Met
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year	Met	Met	Met	Met
Accumulation of domestic payments arrears	Met	Met	Met	Met
C. Indicative targets				
Total revenue (floor)	Not met	Not met	Met	Met
Payment orders issued outside the expenditure chain (ceiling)	Met	Met	Met	Met
Priority social expenditure (floor)	Not met	Not met	Met	Met

Source: Beninese authorities.

D. Favorable Medium-Term Outlook, but with Vulnerabilities

18. Over the medium term, the average annual real growth rate is projected to increase to 4½ percent (Text Table 2). A projected improvement in the global economy starting in 2014, an expanding agricultural production, and medium- and long-term capital inflows for investment, along with higher revenue following a resolution of the current problems at the port, would strengthen growth and the fiscal balance. Inflation would return to lower trend levels, as the fuel shock phases out. It is expected to return to the 3 percent regional convergence criterion over the medium term. However, sustaining growth will require full and timely implementation of the structural reform agenda, including measures needed to strengthen customs administration and the resumption of the IVP.[4]

19. The improved growth outlook is subject to risks from domestic, regional, and global developments (Risk Assessment Matrix, Appendix IV). On the domestic front, failure to resolve recent disputes in the

[4] Medium-term projections include assumptions on a return to a private-sector led cotton sector by the 2014/15 campaign and a resumption of the IVP in the near term.

management of customs and the cotton sector orderly would have a negative impact on growth and the fiscal accounts. Wage slippages and further delays in the structural reform agenda could also weaken program performance. On the regional front, developments in Nigeria, including easing of trade restrictions, more effective border controls, or a further reduction of fuel subsidies could significantly reduce revenue and weaken the fiscal outlook. On the international scene, a delayed recovery of the global economy would reduce exports, and could result in reduced public and private capital inflows.

20. The Debt Sustainability Analysis (DSA) update indicates a low risk of debt distress (Supplement II). The baseline and alternative stress test scenarios indicate that total debt positions present low vulnerabilities to shocks. It is noteworthy that the debt indicators have deteriorated moderately, compared to the 2011 DSA, because of weaker export projections and medium-term growth prospects, stemming from the continuing global crisis.

Text Table 2. Benin: Medium-Term Macroeconomic Framework, 2010–17 [1]

	2010	2011	2012	2013	2014	2015	2016	2017
		Prel.	Projections					
	(Percent of GDP, unless otherwise indicated)							
GDP at constant prices (percent change)	2.6	3.5	3.5	3.8	4.1	4.3	4.5	4.5
Inflation (average, percent change)	2.1	2.7	6.6	3.3	3.1	3.0	2.8	2.8
Overall fiscal balance (excluding grants)	-3.1	-4.3	-3.6	-3.4	-2.4	-2.1	-2.0	-2.0
Basic primary fiscal balance (excluding grants)	0.5	-0.1	0.2	0.4	1.3	1.6	1.7	1.7
External current account balance (excluding grants)	-8.2	-10.3	-10.3	-10.1	-9.3	-8.7	-8.3	-8.1

Sources: Beninese authorities; and IMF staff estimates and projections.

[1] The baseline scenario assumes oil subsidies in Nigeria remain at their current level over the medium term.

POLICY DISCUSSIONS

In the context of strengthened macroeconomic performance, discussions focused on emerging challenges: (i) the short-term macroeconomic risks stemming from the suspension of IVP and the government's decision to intervene in the cotton sector; (ii) the soundness of the financial system and reforms to reduce its vulnerability; and (iii) the need to take advantage of achievements in macroeconomic stability to implement a reform strategy to achieve stronger growth.

A. Fiscal Policy: Good Performance Thus Far, but Risks Going Forward

Revenue

21. There was agreement on the importance of fully resuming customs reforms and restoring full activity at the Port of Cotonou. In 2011, the government implemented broad-based customs reforms to strengthen revenue collection, reduce corruption, streamline trade practices, and boost port activities. However, a partial reversal of the reforms—key imports were exempted from the new measures[5]—was followed in April 2012 by the suspension of the IVP (Box 2 and LOI ¶21). Notwithstanding these adverse developments, revenue performance remained in line with targets up to end-August.

- Staff welcomed the good revenue performance during the first semester of 2012 in spite of the difficulties noted.

- Staff expressed concern, however, about the potential backsliding of the reform effort with the suspension of the IVP and implications for revenue performance going forward. It urged the authorities to re-institute the IVP and to implement the associated reform package fully because re-instituting these is essential for increasing the port's efficiency in a highly competitive environment and bringing its operations closer to international best practices.

- Staff also urged the authorities to implement the recommendations of the December 2011 International Monetary Fund (IMF) Fiscal Affairs Department (FAD) and AFRITAC West technical assistance missions, and recommended maintaining the prohibition of direct import releases that circumvent regular customs procedures.

Authorities' views

- The authorities reiterated their commitment to a full implementation of customs reforms. They shared staff concerns about the stalling of customs reforms and the slowdown of port traffic, but they were confident that this would be resolved by the reduction of fees, measures to shorten the clearance time at the port, and the launch of a public information campaign to bring back importers and shippers in the region. They noted that the one-stop window introduced with the reforms continued to operate effectively. Going forward, they are committed to reinstate the IVP through a joint public-private partnership to manage the scanning operations. Accordingly, in mid-September, they announced that they had cancelled the IVP contract and that they were launching a bidding process to negotiate a new contract; this will be conducted by end-March 2013, allowing the IVP to be relaunched and the two related structural benchmarks to be implemented by end-June 2013 (LOI, ¶16, bullet 7). They also called for a regional discussion on customs reforms to avoid unhealthy competition between ports in the region.

- The authorities also indicated that they were committed to implementing the recommendations of the December 2011

[5] IMF Country Report No. 12/99.

technical assistance mission, including the freezing of tax exemptions, broadening the value-added tax base in line with WAEMU directives, and establishing a unit within the Ministry of Economy and Finance to monitor tax exemptions and expenditures. They noted that revenue administration would be strengthened by streamlining and updating the taxpayers' database for medium-size enterprises, with the assistance of AFRITAC West. They viewed these efforts as critical for widening the domestic tax base and reducing over-reliance on customs receipts, which are vulnerable to changes in Nigeria's trade regime.

- In order to complete structural benchmarks that were delayed because of difficulties with donor financing, the authorities will fund them directly from the 2013 budget; this will allow the benchmarks to be implemented by end-March 2013 (LOI¶16, bullet 1).

Expenditure

22. Current expenditure was broadly on track, but investment expenditure continued to trail its targets. The authorities managed spending as agreed under the program, including on the wage bill and priority social expenditure. Spending on the investment program, however, was slower than planned, with about one-fourth of the projects behind schedule.

- Staff commended the authorities for the overall careful execution of the budget.
- Staff noted, however, that the repeated underperformance of the investment program could jeopardize the authorities' growth strategy.
- Going forward, staff emphasized the importance of keeping the wage bill within the program envelope, despite pressures that may arise in the months ahead, because of its already high share of current expenditure.
- Staff inquired about the fiscal cost of the government's involvement in the cotton sector, including the supply of inputs, the recruitment of some 850 new agricultural advisors, and the guaranteeing of a sizable syndicated loan to finance the campaign (possibly giving rise to contingent fiscal liabilities). Staff cautioned about cotton spending crowding out other spending, including priority social spending and capital investment. It urged the authorities to put in place a regulatory framework for the cotton sector that addresses the governance issues raised by the authorities and ensures that no single player concentrates significant market power, while minimizing fiscal costs.

Authorities' views

- The authorities indicated the careful monitoring of priority social spending would be maintained going forward, and that they were implementing measures to improve the execution of investment projects. They reiterated their commitment to keeping the wage bill within the program envelope.
- They indicated that it was too early to assess the possible fiscal cost of increased government involvement in the cotton sector during the current campaign, but that a large portion of it would be

provided by banks, under the leadership of the West-African Development Bank. This set up would not entail a direct fiscal cost, only a contingent cost, should their guarantee be called upon. They said they expected not spending more on subsidies than in previous years. Based on information at end-September, they hoped that, if the harvest was good, as they expected, and if the international cotton price remained unchanged, they could recoup the cost of financing the campaign. They confirmed they were planning to set up a new regulatory framework that would liberalize the sector, while maintaining key functions for the government (LOI ¶ 20). Looking ahead, they affirmed their intention to withdraw from managing the sector, keeping mostly to a supervisory role. For this, a new framework agreement needs to be negotiated with the private sector. The new agreement would involve adopting the management model of some countries in the region, whereby Benin would be divided into zones to foster competition. With the help of the World Bank, the authorities plan to have the new agreement in place by the beginning of the 2014/15 campaign.

2013 Budget

- The authorities are committed to submitting a draft 2013 budget to parliament, consistent with the further consolidation of macroeconomic stability and with the fiscal framework of the program.

B. Raising Medium-Term Growth and Reducing Poverty

23. With the consolidation of macroeconomic stability on track, Benin is well placed to press ahead with reforms to boost growth and reduce poverty. The critical areas of intervention include completing reforms in customs and the cotton sector, simplifying the regulatory environment to reduce the cost of doing business, launching a program of second-generation reforms, and formulating a medium-term public sector investment strategy to address the country's large infrastructure gap.

24. Normalizing operations at the Port of Cotonou and in the cotton sector. The Port and the cotton sector are key drivers of economic activity, so moving forward with reforms that allow them to operate at full potential is critical for enhancing growth. Regarding the port, reestablishment of the IVP and proceeding with related customs reforms—e.g., computerization and streamlining of customs operations—should help reduce transaction costs.

25. Reducing obstacles to doing business and facilitating the participation of the private sector in the economy will be crucial to improve the country's competitiveness. As indicated in the external stability analysis (Appendix III, ¶14), improvements in competitiveness are needed to align the current account balance with its medium-term fundamentals. Benin's weak performance regarding the "doing business" indicators, even within the region, seriously impairs efficiency of private sector activity.[6]

[6] The key obstacles to doing business were enforcing contracts, paying taxes, and protecting investors.

Needed reforms in this area include streamlining procedures for establishing new businesses and strengthening the capacity of judiciary system. Further enhancing the dialogue between the private sector and government, including during the annual reviews of the poverty reduction strategy, would promote synergies between the public and private sectors. There is also a need to improve the environment in which the private sector operates, as recommended by the 2011 Joint Staff Advisory Note (JSAN),[7] to broaden opportunities for investment in infrastructure, thus contributing to economic growth beyond participation in a few large public projects.

26. Strengthening public investment to improve infrastructure and allow access to public services to a broader share of the population. The public investment program (PIP) has repeatedly under-performed, with the country's large infrastructure gap—especially regarding the rail system and roads—remaining largely unaddressed. This has contributed to Benin's high cost of doing business and limited access to public services by a large section the population, especially in rural areas. The capacity to implement projects as programmed needs to be strengthened, and at the same time, fiscal space should be created for capital investment.

27. Despite efforts, progress on poverty has been uneven. The authorities have implemented measures to foster inclusive growth. As a result, health indicators and literacy rates have improved (Table 8). At the same time, however, the share of the population living below the poverty remains high.

- Staff welcomed the authorities' intention to develop a public-private sector partnership framework, with World Bank assistance, to help advance investments in transportation infrastructure and energy.

- Staff noted the urgent need to improve the planning and prioritization of the PIP; the establishment of a medium-term public sector investment program (PSIP), with assistance from development partners, that carefully prioritizes key infrastructure projects would be welcome. This PSIP would include carefully vetted large infrastructure projects to be financed with the support of donors, regional banks, and multilateral lenders on a concessional basis whenever possible. In particular, the PSIP could address the poor state of roads, which is a major obstacle to competitiveness, especially given the importance of trade with neighboring countries. It also limits the access to public services and markets for a large share of the population living outside of the main cities.

- Staff stressed that higher capital investment will require creating fiscal space, including by mobilizing additional donor financing, raising more revenue and reducing the share of wages in public sector spending; it would also require a significant improvement in the government's capacity to implement investment projects.

- Staff welcomed the improvements in health and education indicators, but noted that significant poverty reduction will

[7] *Benin: Joint Staff Advisory Note on the Poverty Reduction Strategy Paper*, IMF Country Report No. 11/312.

require reinforcing efforts in this area. In particular, strengthening poverty analysis and improving understanding of its determinants, as recommended by the 2011 JSAN, would be critical for this effort.

Authorities' views

- The authorities were in agreement with the need to spur growth by completing structural reforms, improving the business climate, and strengthening the quality and increasing the quantity of public investment.

- The authorities noted that they intended to strengthen the business environment by addressing some of its weaknesses, namely by (i) simplifying the procedures and cutting the cost of starting a business and dealing with construction permits; (ii) improving the legal rights of investors; (iii) simplifying tax payment procedures; and (iv) reducing the difficulties of enforcing contracts by training judges to allow streamlined and negotiated agreements. They also noted that the one-stop window at the Port of Cotonou had helped reduce red tape in customs and that changes in the regulatory framework for the electricity sector had opened up greater space for private sector participation, in line with JSAN recommendations.

- The authorities agreed on the importance of upgrading infrastructure and highlighted advanced plans for deepening the access to the harbor, to be able to receive larger ships, and rehabilitating and expanding the rail system. They noted that they had an action plan linked to the priorities outlined in their poverty-reduction strategy paper. They also acknowledged weaknesses in project implementation and indicated their commitment to work closely with development partners to address the weaknesses.

- The authorities noted ongoing efforts to diversify the economy, including the establishments of food processing factories, which will provide opportunities to expand the export base and take advantage of the large Nigerian market.

- The authorities agreed with staff on the need to reinforce implementation of their poverty-reduction strategy.

C. Strengthening Financial Sector Stability and its Contribution to Growth

28. Enhanced financial sector surveillance. An in-depth analysis of Benin's financial sector and its implication in financial intermediation and the transmission of monetary policy was undertaken in the context of enhanced financial surveillance in low-income countries and in parallel with the consultation (Supplement 1).[8] This pilot explored the connections between financial sector stability and financial sector development, and recommended policy frameworks to foster financial deepening without undue financial sector risks. The

[8] This endeavor initially involves conducting six pilot country studies, of which Benin is the first pilot.

following paragraphs note some of the study's key findings.

29. Further financial deepening is critical for accelerating growth. Benin's financial sector is shallow and only about 10 percent of the population has an account at a formal financial institution. Access to financial services is limited by the lack of information on borrowers, difficulties in enforcing contracts through the judicial system, the absence of formalized property rights, and the high cost of extending banking services to non-urban areas. As noted earlier, the study found that banks had incentives to engage into purchasing sovereign bonds on the regional financial market rather than extending loans to the private sector. Microfinance institutions are hampered by their weak management and small size in providing much-needed credit to rural households and micro- and small enterprises. Addressing the above obstacles would help deepen financial sector intermediation, which in turn would contribute to economic growth.

30. The stability of the financial sector is also important for preserving a sound macroeconomic environment and minimizing fiscal contingent liabilities. The unraveling of a large Ponzi scheme in 2010 and forbearance vis-à-vis three banks that have failed to meet capital requirements over several years point to weaknesses in the supervision of financial institutions.[9]

- Staff welcomed the liquidation of one of the troubled banks (structural benchmark in the program) and the initial steps taken by the authorities to deal with other two troubled banks, although staff noted that current conservatory measures would eventually raise the price of resolution; accordingly, staff called for the timely resolution of the two banks, because prospects for a successful recapitalization are remote. Bank resolution is being conducted in accordance with WAEMU regulations.

- Staff welcomed the adoption of legislation on combating the financing of terrorism by Parliament in May 2012, but urged the authorities to press ahead with effective implementation of the AML/CFT regime, as it can help combat offenses, such as smuggling and corruption.

- Staff expressed concern about the considerable lag of the information available on financial soundness indicators, including on NPLs, giving rise to concerns about the timely monitoring of the banking system and the possibility of having an early assessment of emerging risks. It pointed out that, while financial sector supervision is under the purview of regional institutions, the Beninese authorities can push for more resources for stronger supervision.

Authorities' views

- The authorities reiterated their commitment to resolve the issues with the troubled banks, including liquidating one of them, appointing a provisional administrator for another, and approaching potential investors. They reaffirmed their commitment to recover assets collected by fraudulent financial

[9] Risks are mitigated by the small share of deposits held by these banks.

schemes and to resolve the troubled licensed microfinance institutions.

- They indicated that the unit in charge of preventing money laundering was set up at the Ministry of Finance by legislation approved in 2006. Since it began operating, it has followed over 130 cases, including 8 cases during the first quarter of 2012. The authorities noted that these efforts will be reinforced by the recent legislation on AML/CFT.
- Regarding supervision of the financial sector and providing timely information, they indicated they were strengthening the committee supervising microfinance institutions and collaborating on this issue with the BCEAO and the regional banking commission.
- The authorities welcomed the enhanced financial sector review pilot and expressed interest in the forthcoming discussion on regional policy implications in the context of discussions with the WAEMU team.

STAFF APPRAISAL

31. Macroeconomic stability has improved in recent years. Growth is recovering from floods in 2010 and difficulties at the Port of Cotonou and in the cotton sector in 2011. Inflation increased in 2012 because of the reduction in fuel subsidies in Nigeria, but is projected to return to lower levels starting in 2013.

32. Program targets were met. All performance criteria and quantitative targets at end-March and end-June 2012 were met, in some cases with large margins. In particular, the priority social expenditure targets were achieved for the first time, thanks to improved monitoring.

33. The pace of structural reforms under the program remains disappointing. Only five of the program's eleven structural benchmarks for the fourth ECF review were implemented, one with a delay. At the same time, policy suspensions occurred in the cotton sector and the IVP. Unless addressed, these suspensions pose risks to economic growth and revenue performance over the medium term. The authorities have identified corrective policies to bring the structural reform program back on track, and determined implementation will be needed.

34. The financial sector needs to be strengthened. Stronger supervision will improve the soundness of the financial system. Additional measures will be required to develop financial intermediation, to provide access to financial services to a larger segment of the population, and to enhance the sector's contribution to growth.

35. Benin needs to boost growth to improve living standards and reduce poverty. A comprehensive growth strategy, which seeks to reduce obstacles to growth, increase private sector participation in the economy, and support a significantly larger and better PIP should be at the core of the authorities' development strategy.

36. Staff supports the authorities' request to complete the fourth review under the ECF and to disburse the corresponding financial support. Although the majority of structural benchmarks for the review were missed, completion of the review would reflect the authorities' strong macroeconomic performance through end-August, measures being taken to fight corruption in the cotton and port sectors, corrective actions being taken to address delays in the structural benchmarks, and broader commitments to relaunching strengthened, more durable cotton and port sector reforms in consultation with the private sector and development partners.

37. Staff recommends that the next Article IV consultation take place on the 24- month consultation cycle.

Table 1. Benin: Selected Economic and Financial Indicators, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Projections					
	(Annual percentage change, unless otherwise indicated)							
National income								
GDP at current prices	4.5	6.0	9.1	7.0	7.2	7.3	7.4	7.3
GDP at constant prices	2.6	3.5	3.5	3.8	4.1	4.3	4.5	4.5
GDP deflator	1.9	2.4	5.5	3.1	3.0	2.9	2.8	2.7
Consumer price index (average)	2.1	2.7	6.6	3.3	3.1	3.0	2.8	2.8
Consumer price index (end of period)	4.0	1.8	7.2	3.3	3.1	3.0	2.8	2.8
Central government finance								
Total revenue	4.7	0.4	17.2	8.0	11.0	8.1	7.8	7.7
Expenditure and net lending	-13.2	7.5	12.0	7.0	5.6	6.5	7.4	7.6
Money and credit								
Net domestic assets [1]	5.2	9.8	10.4	9.7	7.5	6.0	4.9	4.3
Domestic credit [1]	4.4	12.7	10.4	9.7	7.5	6.0	4.9	4.3
Net claims on central government [1]	-0.9	6.9	1.2	0.5	-1.1	-2.0	-2.2	-2.4
Credit to the nongovernment sector [1]	5.3	5.7	9.3	9.2	8.6	8.0	7.1	6.6
Broad money (M2)	11.6	9.0	7.4	7.0	7.2	7.3	7.4	7.3
Velocity (GDP relative to average M2)	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3
External sector (CFA francs)								
Exports of goods and services	30.5	-22.8	9.7	8.9	10.4	7.3	7.5	7.0
Imports of goods and services	8.9	-5.8	9.5	7.8	5.8	5.3	6.6	6.7
Terms of trade (deterioration=-)	15.8	4.4	0.6	3.3	1.4	-0.8	-3.5	-1.9
Nominal effective exchange rate (minus = depreciation)	-5.4	1.2	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	-6.5	-0.7	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)							
Basic ratios								
Gross investment	17.6	18.7	19.1	19.2	19.2	19.2	19.4	19.7
Government investment	5.5	6.6	6.8	6.8	6.6	6.5	6.5	6.7
Nongovernment investment	12.1	12.1	12.2	12.4	12.5	12.7	12.8	13.0
Gross domestic saving	7.0	6.0	6.4	6.6	7.4	7.9	8.3	8.7
Government saving	3.0	2.6	3.2	3.4	4.2	4.4	4.5	4.6
Nongovernment saving	4.0	3.4	3.2	3.2	3.2	3.5	3.8	4.1
Gross national saving	10.3	8.7	9.6	9.6	10.5	10.9	11.4	11.9
Central government finance								
Total revenue	18.6	17.6	18.9	19.1	19.7	19.9	19.9	20.0
Expenditure and net lending	21.6	21.9	22.5	22.5	22.2	22.0	22.0	22.0
Primary balance [2]	-2.5	-3.9	-3.0	-2.9	-1.9	-1.5	-1.5	-1.7
Basic primary balance [3]	0.5	-0.1	0.2	0.4	1.3	1.6	1.7	1.7
Overall fiscal deficit (payment order basis, excl. grants)	-3.1	-4.3	-3.6	-3.4	-2.4	-2.1	-2.0	-2.0
Overall fiscal deficit (cash basis, excl. grants)	-3.3	-4.9	-4.1	-3.9	-2.8	-2.5	-2.4	-2.3
Debt service (in percent of revenue)	5.6	5.4	6.3	6.1	6.3	6.5	6.6	6.5
Total government debt	30.0	31.5	32.4	28.4	27.5	26.7	25.7	24.0
External sector								
Balance of goods and services	-10.6	-12.7	-12.7	-12.6	-11.8	-11.3	-11.1	-10.9
Current account balance (incl. grants)	-7.3	-10.0	-9.5	-9.5	-8.7	-8.3	-8.0	-7.8
Current account balance (excl. grants)	-8.2	-10.3	-10.3	-10.1	-9.3	-8.7	-8.3	-8.1
Overall balance of payments	0.8	-4.9	-1.8	-0.9	0.1	0.8	1.3	1.5
Debt service-to-exports ratio	3.6	5.0	5.7	5.7	6.0	6.2	6.4	6.3
Debt-to-GDP ratio (post-MDRI)	17.9	17.7	17.0	17.3	17.7	18.2	18.5	17.7
Nominal GDP (billions of CFA francs)	3,247.9	3,444.4	3,758.4	4,022.9	4,312.8	4,629.7	4,973.8	5,338.6
CFA francs per U.S. dollar (period average)	495.3	471.9	...	...	...	...	...	...
Population (millions)	8.8	9.1	9.4	9.6	9.9	10.1	10.4	10.6
Nominal GDP per capita (U.S. dollars)	741.0	802.2	806.4	840.9	875.3	911.8	950.7	1,048.4

Sources: Beninese authorities; IMF staff estimates and projections.
Note: ... = not available.

[1] Change in percent of beginning-of-period broad money.
[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

Table 2a. Benin: Consolidated Central Government Operations, 2010–17

	2010	2011	2012		2013	2014	2015	2016	2017
		Prel.	Proj.[1]	Rev. Proj.[5]	Projections				
	(Billions of CFA francs)								
Total revenue	603.0	605.6	710.0	710.0	767.0	851.0	920.0	992.0	1068.0
Tax revenue	525.9	534.7	632.2	596.4	685.0	764.5	825.9	891.3	960.4
Tax on international trade	278.4	261.2	334.5	299.0	356.0	406.7	437.6	470.8	505.5
Direct and indirect taxes	247.5	273.5	297.7	297.4	329.0	357.7	388.3	420.5	454.9
Nontax revenue	77.1	70.9	77.8	113.6	82.0	86.5	94.1	100.7	107.7
Total expenditure and net lending	702.2	754.7	843.9	845.4	905.0	956.0	1,018.0	1,093.0	1,176.0
Current expenditure	504.4	515.6	614.2	588.4	632.1	669.7	717.1	767.4	820.3
Current primary expenditure	486.7	500.7	580.1	565.8	609.1	645.0	690.6	739.0	789.8
Wage bill	238.7	253.2	279.0	279.0	298.9	313.8	333.9	355.1	376.4
Pensions and scholarships	43.6	48.7	56.8	56.8	62.5	67.5	73.7	80.2	87.3
Current transfers	114.1	109.5	123.0	127.0	137.5	145.6	156.2	167.4	179.8
Expenditure on goods and services	90.3	89.3	121.3	103.0	110.2	118.1	126.8	136.2	146.2
Interest	17.7	14.9	34.1	22.6	23.0	24.7	26.5	28.4	30.5
Internal debt	9.6	7.1	24.4	12.6	12.1	13.0	13.9	15.0	16.1
External debt	8.1	7.8	9.7	10.0	10.9	11.7	12.5	13.5	14.5
Capital expenditure and net lending	197.8	239.1	229.7	257.0	272.9	286.3	300.9	325.6	355.7
Capital expenditure	177.2	226.6	229.7	257.0	272.9	286.3	300.9	325.6	355.7
Financed by domestic resources	101.2	107.5	122.7	137.0	143.0	150.1	156.1	170.0	188.7
Financed by external resources	76.0	119.1	107.0	120.0	129.9	136.2	144.8	155.6	167.0
Net lending (minus = reimbursement)	20.6	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-99.2	-149.1	-134.0	-135.4	-138.0	-105.0	-98.0	-101.0	-108.0
Primary balance [2]	*-81.5*	*-134.2*	*-99.8*	*-112.8*	*-115.0*	*-80.3*	*-71.5*	*-72.6*	*-77.5*
Basic primary balance [3]	*15.1*	*-2.6*	*7.2*	*7.2*	*14.9*	*55.9*	*73.3*	*83.0*	*89.5*
Change in arrears	-17.2	-11.6	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-17.2	-11.6	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4
Float [4]	9.5	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-106.9	-168.5	-151.4	-152.8	-155.4	-122.4	-115.4	-118.4	-125.4
Financing	111.2	166.2	151.4	152.8	155.4	122.4	115.4	118.4	125.4
Domestic financing	-1.2	54.7	47.5	16.1	16.4	-27.9	-43.3	-52.6	-52.1
Bank financing	-11.9	100.4	41.1	18.7	8.6	-19.4	-38.1	-45.2	-53.2
Net use of IMF resources	8.4	18.2	15.3	16.2	16.0	-3.0	-4.7	-6.2	-9.8
Disbursements	8.4	18.3	15.6	16.5	16.5	0.0	0.0	0.0	0.0
Repayments	0.0	-0.1	-0.3	-0.3	-0.5	-3.0	-4.7	-6.2	-9.8
Other	-20.3	82.2	25.8	2.5	-7.4	-16.4	-33.4	-39.0	-43.4
Nonbank financing	10.7	-45.7	6.4	-2.6	7.8	-8.5	-5.2	-7.3	1.1
Privatization	17.5	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-22.5	-30.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	15.7	-15.2	-3.6	-2.6	7.8	-8.5	-5.2	-7.3	1.1
External financing	112.4	111.5	103.9	136.7	138.9	150.3	158.7	171.0	177.5
Project financing	76.0	119.1	107.0	120.0	129.9	136.2	144.8	155.6	167.0
Grants	19.2	76.8	53.5	80.0	65.7	68.8	73.9	79.4	85.2
Loans	56.8	42.3	53.5	40.0	64.2	67.4	70.9	76.2	81.8
Amortization due	-15.8	-17.9	-24.0	-21.9	-23.0	-24.5	-25.6	-24.2	-28.4
Budgetary assistance	52.2	10.3	20.9	38.6	32.0	38.6	39.5	39.6	39.0
Grants	28.9	10.3	11.6	28.8	22.4	23.9	20.0	17.9	20.3
Loans	23.3	0.0	9.3	9.8	9.6	14.7	19.5	21.7	18.7
Statistical discrepancy	-4.3	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
GDP (billions of CFA francs)	3247.9	3444.4	3723.5	3758.4	4022.9	4312.8	4629.7	4973.8	5338.6

Sources: Beninese authorities; IMF staff estimates and projections.

[1] IMF Country Report No. 12/99.
[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.
[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.
[4] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.
[5] Includes 44 billion from sale of telecommunications license.

Table 2b. Benin: Consolidated Central Government Operations, 2010–13

	2010	2011	2012								2013	
			Q1		Q2		Q3		Year		Q1	Year
		Prel.	Prog.[1]	Prel.[5]	Proj.[1]	Prel.[5]	Prog.[1]	Rev. Prog.[5]	Proj.[1]	Rev. Proj.[5]	Prog.	Proj.
	(Billions of CFA francs)											
Total revenue	603.0	605.6	148.3	211.6	331.3	380.0	515.0	535.6	710.0	710.0	172.0	767.0
Tax revenue	525.9	534.7	136.6	152.4	300.0	305.2	460.3	447.0	632.2	596.4	160.4	685.0
Tax on international trade	278.4	261.2	69.6	81.0	154.3	156.4	241.4	226.1	334.5	299.0	85.4	356.0
Direct and indirect taxes	247.5	273.5	67.0	71.4	145.7	148.7	218.9	220.9	297.7	297.4	75.0	329.0
Nontax revenue	77.1	70.9	11.7	59.2	31.3	74.8	54.7	88.6	77.8	113.6	11.6	82.0
Total expenditure and net lending	702.2	754.7	186.6	193.2	437.0	397.6	638.7	623.8	843.9	845.4	221.0	905.0
Current expenditure	504.4	515.6	149.8	153.8	293.0	288.8	441.7	439.8	614.2	588.4	171.7	632.1
Current primary expenditure	486.7	500.7	146.3	151.1	287.1	282.8	429.7	427.9	580.1	565.8	166.7	609.1
Wage bill	238.7	253.2	64.0	70.4	134.1	133.0	204.7	204.7	279.0	279.0	74.5	298.9
Pensions and scholarships	43.6	48.7	11.5	16.7	28.0	27.7	38.0	38.0	56.8	56.8	18.4	62.5
Current transfers	114.1	109.5	42.5	43.2	70.0	75.7	105.0	103.1	123.0	127.0	50.8	137.5
Expenditure on goods and services	90.3	89.3	28.3	20.8	55.0	46.5	82.0	82.0	121.3	103.0	23.0	110.2
Interest	17.7	14.9	3.5	2.7	5.9	6.0	12.0	12.0	34.1	22.6	5.0	23.0
Internal debt	9.6	7.1	1.9	0.9	0.9	1.3	4.5	4.5	24.4	12.6	3.1	12.1
External debt	8.1	7.8	1.6	1.7	5.0	4.7	7.5	7.5	9.7	10.0	1.9	10.9
Capital expenditure and net lending	197.8	239.1	36.8	39.4	144.0	108.8	197.0	184.0	229.7	257.0	49.3	272.9
Capital expenditure	177.2	226.6	36.8	38.4	144.0	107.1	197.0	177.7	229.7	257.0	49.3	272.9
Financed by domestic resources	101.2	107.5	22.5	21.5	84.0	62.6	107.0	107.0	122.7	137.0	24.0	143.0
Financed by external resources	76.0	119.1	14.3	17.0	60.0	44.4	90.0	70.7	107.0	120.0	25.3	129.9
Net lending (minus = reimbursement)	20.6	12.5	0.0	1.0	0.0	1.7	0.0	6.3	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-99.2	-149.1	-38.3	18.4	-105.7	-17.6	-123.7	-88.2	-134.0	-135.4	-49.0	-138.0
Primary balance [2]	*-81.5*	*-134.2*	*-34.8*	*21.1*	*-99.8*	*-11.7*	*-111.7*	*-76.2*	*-99.8*	*-112.8*	*-44.0*	*-115.0*
Basic primary balance [3]	*15.1*	*-2.6*	*-20.5*	*39.0*	*-39.8*	*34.5*	*-21.7*	*0.7*	*7.2*	*7.2*	*-18.7*	*14.9*
Change in arrears	-17.2	-11.6	-2.1	-5.1	-8.7	-9.0	-13.1	-13.1	-17.4	-17.4	-4.4	-17.4
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-17.2	-11.6	-2.1	-5.1	-8.7	-9.0	-13.1	-13.1	-17.4	-17.4	-4.4	-17.4
Float [4]	9.5	-7.8	-20.0	35.0	-10.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-106.9	-168.5	-60.4	48.3	-124.4	-27.3	-136.7	-101.2	-151.4	-152.8	-53.3	-155.4
Financing	111.2	166.2	60.4	-48.3	124.4	27.3	136.7	101.2	151.4	152.8	53.3	155.4
Domestic financing	-1.2	54.7	48.7	-75.9	60.7	-20.9	48.6	32.4	47.5	16.1	29.0	16.4
Bank financing	-11.9	100.4	47.6	-89.7	63.4	-24.5	70.0	51.2	41.1	18.7	28.7	8.6
Net use of IMF resources	8.4	18.2	0.0	-0.1	7.9	8.0	7.9	7.9	15.3	16.2	0.0	16.0
Disbursements	8.4	18.3	0.0	0.0	8.1	8.1	8.1	8.1	15.6	16.5	0.0	16.5
Repayments	0.0	-0.1	0.0	-0.1	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3	0.0	-0.5
Other	-20.3	82.2	47.6	-89.6	55.5	-32.5	62.1	43.3	25.8	2.5	28.7	-7.4
Nonbank financing	10.7	-45.7	1.1	13.7	-2.7	3.5	-21.4	-18.8	6.4	-2.6	0.3	7.8
Privatization	17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0	0.0	0.0
Restructuring	-22.5	-30.5	0.0	-2.2	0.0	-5.3	0.0	0.0	0.0	0.0	0.0	0.0
Other	15.7	-15.2	1.1	15.9	-2.7	8.8	-21.4	-18.8	-3.6	-2.6	0.3	7.8
External financing	112.4	111.5	11.7	27.6	63.6	48.3	88.2	68.8	103.9	136.7	24.3	138.9
Project financing	76.0	119.1	14.3	17.0	60.0	44.4	90.0	70.7	107.0	120.0	25.3	129.9
Grants	19.2	76.8	7.7	6.8	40.0	23.4	60.0	40.7	53.5	80.0	12.1	65.7
Loans	56.8	42.3	6.6	10.1	20.0	21.0	30.0	30.0	53.5	40.0	13.2	64.2
Amortization due	-15.8	-17.9	-2.6	-3.9	-11.0	-10.7	-16.4	-16.4	-24.0	-21.9	-3.6	-23.0
Budgetary assistance	52.2	10.3	0.0	14.5	14.6	14.5	14.6	14.6	20.9	38.6	2.7	32.0
Grants	28.9	10.3	0.0	14.5	14.6	14.5	14.6	14.6	11.6	28.8	1.9	22.4
Loans	23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.3	9.8	0.8	9.6
Statistical discrepancy	-4.3	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:												
GDP (billions of CFA francs, annual)	3247.9	3,444.4	3,723.5	3,758.4	3,760.6	3,758.4	3,760.6	3,758.4	3,723.5	3,758.4	4,022.9	4,022.9

Sources: Beninese authorities; IMF staff estimates and projections.

[1] IMF Country Report No. 12/99.

[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[4] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

[5] Includes 44 billion from sale of telecommunications license.

Table 3. Benin: Consolidated Central Government Operations, 2010–17

	2010	2011	2012	2012	2013	2014	2015	2016	2017
		Prel.	Proj.[1]	Rev. Proj.[5]	Projections				
	(Percent of GDP)								
Total revenue	18.6	17.6	18.9	18.9	19.1	19.7	19.9	19.9	20.0
Tax revenue	16.2	15.5	16.8	15.9	17.0	17.7	17.8	17.9	18.0
Tax on international trade	8.6	7.6	8.9	8.0	8.8	9.4	9.5	9.5	9.5
Direct and indirect taxes	7.6	7.9	7.9	7.9	8.2	8.3	8.4	8.5	8.6
Nontax revenue	2.4	2.1	2.1	3.0	2.0	2.0	2.0	2.0	2.0
Total expenditure and net lending	21.6	21.9	22.4	22.5	22.5	22.2	22.0	22.0	22.0
Current expenditures	15.5	15.0	16.3	15.7	15.7	15.5	15.5	15.4	15.4
Current primary expenditures	15.0	14.5	15.4	15.1	15.1	15.0	14.9	14.9	14.8
Wage bill	7.3	7.4	7.4	7.4	7.4	7.3	7.2	7.1	7.1
Pensions and scholarships	1.3	1.4	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Current transfers	3.5	3.2	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Expenditure on goods and services	2.8	2.6	3.2	2.7	2.7	2.7	2.7	2.7	2.7
Interest	0.5	0.4	0.9	0.6	0.6	0.6	0.6	0.6	0.6
Internal debt	0.3	0.2	0.6	0.3	0.3	0.3	0.3	0.3	0.3
External debt	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditure and net lending	6.1	6.9	6.1	6.8	6.8	6.6	6.5	6.5	6.7
Capital expenditure	5.5	6.6	6.1	6.8	6.8	6.6	6.5	6.5	6.7
Financed by domestic resources	3.1	3.1	3.3	3.6	3.6	3.5	3.4	3.4	3.5
Financed by external resources	2.3	3.5	2.8	3.2	3.2	3.2	3.1	3.1	3.1
Net lending (minus = reimbursement)	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-3.1	-4.3	-3.6	-3.6	-3.4	-2.4	-2.1	-2.0	-2.0
Primary balance [2]	-2.5	-3.9	-2.7	-3.0	-2.9	-1.9	-1.5	-1.5	-1.5
Basic primary balance [3]	0.5	-0.1	0.2	0.2	0.4	1.3	1.6	1.7	1.7
Change in arrears	-0.5	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.5	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
Float [4]	0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-3.3	-4.9	-4.0	-4.1	-3.9	-2.8	-2.5	-2.4	-2.3
Financing	3.4	4.8	4.0	4.1	3.9	2.8	2.5	2.4	2.3
Domestic financing	0.0	1.6	1.3	0.4	0.4	-0.6	-0.9	-1.1	-1.0
Bank financing	-0.4	2.9	1.1	0.5	0.2	-0.5	-0.8	-0.9	-1.0
Net use of IMF resources	0.3	0.5	0.4	0.4	0.4	-0.1	-0.1	-0.1	-0.2
Other	-0.6	2.4	0.7	0.1	-0.2	-0.4	-0.7	-0.8	-0.8
Nonbank financing	0.3	-1.3	0.2	-0.1	0.2	-0.2	-0.1	-0.1	0.0
Privatization	0.5	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.7	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.5	-0.4	-0.1	-0.1	0.2	-0.2	-0.1	-0.1	0.0
External financing	3.5	3.2	2.8	3.6	3.5	3.5	3.4	3.4	3.3
Project financing	2.3	3.5	2.8	3.2	3.2	3.2	3.1	3.1	3.1
Grants	0.6	2.2	1.4	2.1	1.6	1.6	1.6	1.6	1.6
Loans	1.7	1.2	1.4	1.1	1.6	1.6	1.5	1.5	1.5
Amortization due	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5
Budgetary assistance	1.6	0.3	0.6	1.0	0.8	0.9	0.9	0.8	0.7
Grants	0.9	0.3	0.3	0.8	0.6	0.6	0.4	0.4	0.4
Loans	0.7	0.0	0.2	0.3	0.2	0.3	0.4	0.4	0.4
Statistical discrepancy	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Total revenue and grants	20.0	20.1	20.6	21.8	21.3	21.9	21.9	21.9	22.0
Revenue	18.6	17.6	18.9	18.9	19.1	19.7	19.9	19.9	20.0
Grants	1.5	2.5	1.7	2.9	2.2	2.1	2.0	2.0	2.0
Total loan disbursement	2.5	1.2	1.7	1.3	1.8	1.9	2.0	2.0	1.9
Overall balance incl. grants (payment order basis)	-1.6	-1.8	-1.8	-0.7	-1.2	-0.3	-0.1	-0.1	0.0
GDP (billions of CFA francs)	3,247.9	3,444.4	3,442.2	3,758.4	4,022.9	4,312.8	4,629.7	4,973.8	5,338.6

Sources: Beninese authorities; IMF staff estimates and projections.

[1] IMF Country Report No. 12/99.

[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[4] Net change in the stock of payment orders whose payment has been postponed to the following period, and balance of custodian accounts.

[5] Includes 44 billion from sale of telecommunications license.

Table 4. Benin: Balance of Payments, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Projections					
	(Billions of CFA francs)							
Current account balance	-237.0	-343.6	-356.5	-384.2	-376.2	-382.1	-396.2	-413.8
Excluding budgetary assistance grants	-265.9	-353.9	-385.3	-406.6	-400.1	-402.1	-414.1	-434.1
Balance of goods and services	-342.8	-435.8	-476.1	-507.4	-508.3	-522.4	-549.7	-584.4
Credit	667.7	515.7	565.9	616.1	680.5	729.9	784.7	839.4
Debit	-1,010.6	-951.5	-1,042.0	-1,123.6	-1,188.8	-1,252.3	-1,334.4	-1,423.8
Trade balance [1]	-308.9	-418.6	-453.4	-461.5	-478.5	-500.5	-535.1	-578.1
Exports, f.o.b.	446.7	312.2	321.4	353.2	381.7	410.3	442.6	473.2
Cotton and textiles	61.5	54.2	54.1	62.0	64.7	65.2	65.9	63.1
Other	385.2	258.0	267.3	291.2	317.0	345.1	376.7	410.1
Imports, f.o.b.	-755.6	-730.8	-774.8	-814.7	-860.2	-910.8	-977.7	-1,051.3
Petroleum products	-150.4	-85.8	-95.7	-106.5	-106.5	-107.0	-108.1	-102.9
Other	-605.3	-645.0	-679.1	-708.1	-753.7	-803.8	-869.7	-948.4
Services (net)	-34.0	-17.2	-22.7	-46.0	-29.8	-21.9	-14.6	-6.3
Credit	221.0	203.5	244.5	263.0	298.7	319.6	342.1	366.2
Debit	-255.0	-220.7	-267.2	-308.9	-328.5	-341.5	-356.6	-372.5
Income (net)	-26.5	-16.7	-19.1	-20.3	-21.4	-22.6	-23.9	-25.2
Of which: interest due on central government debt	-8.1	-7.8	-10.0	-10.9	-11.7	-12.5	-13.5	-14.5
Current transfers (net)	132.3	108.9	138.8	143.6	153.5	162.9	177.3	195.8
Unrequited private transfers	35.2	46.0	51.8	58.3	65.5	73.5	82.3	92.1
Public current transfers	97.1	62.9	87.0	85.3	88.0	89.4	95.0	103.7
Of which: budgetary assistance grants	28.9	10.3	28.8	22.4	23.9	20.0	17.9	20.3
Capital and financial account balance	232.0	142.1	288.9	348.4	380.5	417.4	458.7	492.5
Capital account balance	19.2	76.8	80.0	65.7	68.8	73.9	79.4	85.2
Financial account balance	212.8	65.3	208.9	282.6	311.7	343.5	379.4	407.4
Medium- and long-term public capital	68.3	28.3	31.9	54.8	61.6	68.9	77.7	76.0
Disbursements	84.1	46.3	53.8	77.8	86.1	94.5	101.9	104.5
Project Loans	60.8	46.3	44.0	68.2	71.4	74.9	80.2	85.8
Of which: Central government project loans	56.8	42.3	40.0	64.2	67.4	70.9	76.2	81.8
Budgetary assistance loans	23.3	0.0	9.8	9.6	14.7	19.5	21.7	18.7
Amortization due	-15.8	-17.9	-21.9	-23.0	-24.5	-25.6	-24.2	-28.4
Foreign direct investment	96.4	100.5	113.3	127.6	143.3	160.7	179.9	201.1
Portfolio investment	24.4	30.0	31.8	34.7	37.2	39.8	42.8	45.9
Other medium- and long-term private capital	49.6	38.1	41.8	45.6	49.7	54.1	59.0	64.3
Deposit money banks	-57.5	-140.8	-20.0	10.0	10.0	10.0	10.0	10.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	31.6	9.2	10.1	10.0	10.0	10.0	10.0	10.0
Errors and omissions	30.0	33.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	25.0	-167.6	-67.5	-35.8	4.3	35.2	62.5	78.7
Change in net foreign assets, BCEAO (- = increase)	-25.0	152.6	67.5	35.8	-4.3	-35.2	-62.5	-78.7
Of which: net use of IMF resources	8.4	18.2	15.9	15.5	-3.0	-5.4	-10.1	-15.5
			(Percent of GDP, unless otherwise indicated)					
Memorandum items:								
Net re-exports	3.4	3.1	3.0	3.1	3.4	3.4	3.5	3.5
Re-exports	7.2	6.9	6.9	7.0	7.1	7.2	7.3	7.5
Imports for re-exports	-3.8	-3.8	-3.9	-3.9	-3.7	-3.8	-3.9	-3.9
Current account balance (incl. budgetary assistance grants)	-7.3	-10.0	-9.5	-9.5	-8.7	-8.3	-8.0	-7.8
Current account balance (excl. budgetary assistance grants)	-8.2	-10.3	-10.3	-10.1	-9.3	-8.7	-8.3	-8.1
Balance of goods and services	-10.6	-12.7	-12.7	-12.6	-11.8	-11.3	-11.1	-10.9
Trade balance	-9.5	-12.2	-12.1	-11.5	-11.1	-10.8	-10.8	-10.8
Exports	13.8	9.1	8.6	8.8	8.9	8.9	8.9	8.9
Imports	-23.3	-21.2	-20.6	-20.3	-19.9	-19.7	-19.7	-19.7
Income and current transfers (net)	3.3	2.7	3.2	3.1	3.1	3.0	3.1	3.2
Capital account balance	0.6	2.2	2.1	1.6	1.6	1.6	1.6	1.6
Financial account balance	6.6	1.9	5.6	7.0	7.2	7.4	7.6	7.6
Overall balance	0.8	-4.9	-1.8	-0.9	0.1	0.8	1.3	1.5
International price of cotton (Cotlook "A" Index, U.S. cents per lb.)	103.5	154.6	90.5	90.8	89.3	85.0	80.0	76.0
International price of oil (U.S. dollars per barrel)	79.0	104.0	106.2	105.1	100.6	96.4	92.8	88.9
Gross official reserves (percent of broad money)	141.2	121.0	109.6	101.3	94.5	89.5	85.6	82.4
WAEMU gross official reserves (months of WAEMU imports of GS) [2]	6.1	…	…	…	…	…	…	…
GDP (billions of CFA francs)	3,247.9	3,444.4	3,758.4	4,022.9	4,312.8	4,629.7	4,973.8	5,338.6

Sources: Beninese authorities; IMF staff estimates and projections.
Note: … = not available.

[1] Excludes re-exports and imports for re-export whose net balance is divided between services and public transfers.
[2] Months of future imports of goods and services.

Table 5. Benin: Monetary Survey, 2010–17

	2010	2011	2012 Q1	2012 Q2	2012 Q4	2013	2014	2015	2016	2017
			Actual	Actual	Proj.	Projections				
					(Billions of CFA francs)					
Net foreign assets	781.0	769.2	836.0	872.5	721.6	675.8	670.1	695.3	747.9	816.6
Central Bank of West African States (BCEAO)	551.3	398.7	439.9	401.8	331.1	295.3	299.6	334.9	397.4	476.1
Banks	229.6	370.5	396.1	470.7	390.5	380.5	370.5	360.5	350.5	340.5
Net domestic assets	665.2	807.4	732.9	801.9	972.1	1,137.2	1,273.5	1,391.1	1,493.6	1,589.3
Domestic credit	764.0	947.4	857.2	918.4	1,112.2	1,277.2	1,413.5	1,531.1	1,633.6	1,729.3
Net claims on central government	-10.6	89.8	-0.2	65.3	108.4	117.0	97.6	59.5	14.2	-38.9
Credit to the nongovernment sector	774.6	857.7	857.3	853.1	1,003.7	1,160.1	1,315.9	1,471.6	1,619.4	1,768.2
Other items (net)	-98.9	-140.0	-124.2	-116.5	-140.0	-140.0	-140.0	-140.0	-140.0	-140.0
Broad money (M2)	1,446.1	1,576.6	1,568.9	1,674.4	1,693.8	1,813.0	1,943.6	2,086.4	2,241.5	2,405.9
Currency	346.1	376.8	396.1	405.1	411.2	440.1	471.8	506.5	544.1	584.0
Bank deposits	1,090.9	1,191.5	1,163.9	1,260.7	1,274.3	1,364.5	1,463.5	1,571.6	1,689.0	1,813.5
Deposits with postal checking accounts	9.1	8.3	8.9	8.6	8.3	8.3	8.3	8.3	8.3	8.3
			(Change in percent of beginning-of-period broad money, unless otherwise indicated)							
Net foreign assets	6.4	-0.8	4.2	6.6	-3.0	-2.7	-0.3	1.3	2.5	3.1
Central Bank of West African States (BCEAO)	1.9	-10.6	2.6	0.2	-4.3	-2.1	0.2	1.8	3.0	3.5
Banks	4.4	9.7	1.6	6.4	1.3	-0.6	-0.6	-0.5	-0.5	-0.4
Net domestic assets	5.2	9.8	-4.7	-0.4	10.4	9.7	7.5	6.0	4.9	4.3
Domestic credit	4.4	12.7	-5.7	-1.8	10.4	9.7	7.5	6.0	4.9	4.3
Net claims on central government	-0.9	6.9	-5.7	-1.6	1.2	0.5	-1.1	-2.0	-2.2	-2.4
Credit to the nongovernment sector	5.3	5.7	0.0	-0.3	9.3	9.2	8.6	8.0	7.1	6.6
Other items (net)	0.8	-2.8	1.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Broad money (M2)	11.6	9.0	-0.5	6.2	7.4	7.0	7.2	7.3	7.4	7.3
Currency	1.1	2.1	1.2	1.8	2.2	1.7	1.7	1.8	1.8	1.8
Bank deposits	10.5	7.0	-1.7	4.4	5.3	5.3	5.5	5.6	5.6	5.6
Deposits with postal checking accounts	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Velocity of broad money	2.4	2.4	...	...	2.3	2.3	2.3	2.3	2.3	2.3
Broad money as share of GDP	44.5	45.8	...	...	45.1	45.1	45.1	45.1	45.1	45.1
Credit to the nongovernment sector (year-on-year change in percent)	9.7	10.7	0.0	-0.5	17.0	15.6	13.4	11.8	10.0	9.2
Nominal GDP (billions of CFA francs, annual)	3,247.9	3,444.4	...	...	3,758.4	4,022.9	4,312.8	4,629.7	4,973.8	5,338.6
Nominal GDP growth (annual change in percent)	4.5	6.0	...	...	9.1	7.0	7.2	7.3	7.4	7.3

Sources: BCEAO; IMF staff estimates and projections.

Note: ... = not available.

Table 6. Benin: Schedule of Disbursements Under the ECF Arrangement, 2010–13

Amount	Date Available	Conditions Necessary for Disbursement
SDR 10.62 million	June 28, 2010	Disbursed. The Executive Board approved the three-year arrangement on June 14, 2010.
SDR 10.61 million	December 31, 2010	Disbursed. The Executive Board concluded the first review on February 16, 2011.
SDR 10.61 million	June 1, 2011	Disbursed. The Executive Board concluded the second review on September 7, 2011.
SDR 10.61 million	December 1, 2011	Disbursed. The Executive Board concluded the third review on March 27, 2012.
SDR 10.61 million	June 1, 2012	Observance of performance criteria for March 31, 2012, and of the continuous performance criteria, and completion of the fourth review under the arrangement.
SDR 10.61 million	December 1, 2012	Observance of performance criteria for September 30, 2012, and of the continuous performance criteria, and completion of the fifth review under the arrangement.
SDR 10.61 million	June 1, 2013	Observance of performance criteria for March 31, 2013, and of the continuous performance criteria, and completion of the sixth review under the arrangement.
SDR 74.28 million		Total amount.

Source: International Monetary Fund.

Table 7. Benin: Indicators of Capacity to Repay the IMF, 2012–23

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
IMF obligations based on existing credit[1]												
(millions of SDRs)												
Principal	0.2	0.6	3.9	6.0	8.0	11.9	12.8	9.5	7.4	5.3	1.1	0.0
Charges and interest[2]	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
IMF obligations based on existing and prospective drawings												
(millions of SDRs)												
Principal	0.2	0.6	3.9	6.0	8.0	11.9	18.1	15.9	13.8	11.7	7.4	1.1
Charges and interest	0.0	0.0	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit[3]												
Millions of SDRs	0.2	0.6	4.2	6.3	8.2	12.1	18.3	16.0	13.9	11.7	7.5	1.1
Billions of CFA francs	0.1	0.5	3.2	4.8	6.4	9.2	13.9	12.1	10.5	8.9	5.6	0.8
Percent of government revenue	0.0	0.1	0.4	0.5	0.6	0.9	1.2	1.0	0.8	0.6	0.4	0.0
Percent of exports of goods and services	0.0	0.1	0.5	0.7	0.8	1.1	1.5	1.2	0.9	0.7	0.4	0.1
Percent of debt service	0.1	0.4	2.6	4.0	5.5	8.3	32.9	27.7	22.7	18.4	10.8	1.4
Percent of GDP	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.0
Percent of quota	0.3	1.0	6.8	10.1	13.2	19.6	29.6	25.8	22.4	18.9	12.0	1.7
Outstanding IMF credit[3]												
Millions of SDRs	77.4	98.0	94.1	88.1	80.1	68.2	55.4	45.9	38.4	33.1	32.1	32.1
Billions of CFA francs	59.6	75.4	72.6	68.2	62.3	51.6	41.9	34.7	29.1	25.1	24.3	24.3
Percent of government revenue	8.4	9.8	8.5	7.4	6.3	4.8	3.7	2.8	2.2	1.8	1.6	1.5
Percent of exports of goods and services	10.5	12.2	10.7	9.3	7.9	6.2	4.5	3.4	2.6	2.0	1.8	1.6
Percent of debt service	57.2	62.1	59.6	56.7	54.2	46.7	99.5	79.4	62.8	52.2	46.5	42.9
Percent of GDP	1.6	1.9	1.7	1.5	1.3	1.0	0.7	0.6	0.4	0.4	0.3	0.3
Percent of quota	96.2	121.8	117.3	110.2	100.7	83.4	67.7	56.1	47.0	40.5	39.2	39.2
Net use of IMF credit (millions of SDRs)	21.0	20.6	-3.9	-6.0	-8.0	-11.9	-18.1	-15.9	-13.8	-11.7	-7.4	-1.1
Disbursements	21.2	21.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.2	0.6	3.9	6.0	8.0	11.9	18.1	15.9	13.8	11.7	7.4	1.1
Memorandum items:												
Charges and interest, after assumed subsidies	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (billions of CFA francs)	3,758.4	4,022.9	4,312.8	4,629.7	4,973.8	5,338.6	5,738.5	6,170.9	6,637.7	7,142.1	7,687.5	8,278.0
Exports of goods and services (billions of CFA francs)	565.9	616.1	680.5	729.9	784.7	839.4	927.6	1,025.0	1,132.6	1,251.5	1,382.9	1,528.1
Government revenue (billions of CFA francs)	710.0	767.0	851.0	920.0	992.0	1,068.0	1,148.0	1,234.5	1,327.9	1,428.8	1,537.9	1,656.0
Debt service (billions of CFA francs)	104.1	121.3	121.8	120.3	114.9	110.6	42.2	43.7	46.3	48.1	52.2	56.6

Sources: IMF staff estimates and projections.

[1] Data are actual through end-September 2011 and are projected after that.

[2] Effective on January 7, 2010, interest on ECF credit outstanding would be zero in 2010 and 2011. On December 1, 2011, the IMF Board extended through December 31, 2012, the waiver of interest payments for concessional loans that was introduced on January 7, 2010. For 2013, interest rates will be 0 percent for ECF and RCF loans, and 0.25 percent per year for the SCF, ESF, and subsidized ENDA/EPCA. After 2013, projected interest charges are based on 0.25/0.25/0.5/0.25 percent per year for the ECF, RCF, SCF, and ESF, respectively. The IMF will review the interest rates for all PRGT facilities by end-2013 and every two years thereafter. Charges include net SDR charges and SDR assessments.

[3] Total debt service includes IMF repurchases and repayments.

Table 8. Benin: Millennium Development Goals, 1990–2015

	1990	1995	2000	2005	2011	2015 Target
Goal 1. Eradicate extreme poverty and hunger						
Target: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
- Population below US$1 a day (percent)	57.0	...	...	47.3	51.6	26.7
- Population below minimum level of dietary energy consumption (percent)	...	29.0	...	...	...	...
Goal 2. Achieve universal primary education						
Target: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
- Net primary enrollment ratio (percent of relevant age group)	41.0	60.0	...	87.0	90.3	100.0
- Percentage of cohort reaching grade 5	55.0	...	75.0	63.0	64.3	100.0
- Youth literacy rate (percent age 15–24)	64.0	...	...	45.3	60.5	100.0
Goal 3. Promote gender equality and empower women						
Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						
- Ratio of girls to boys in primary school (percent)	51.0	...	69.0	80.0	87.1	100.0
- Ratio of girls to boys in secondary school (percent)	42.0	44.0	46.0	57.0	61.0	100.0
- Proportion of seats held by women in the national parliament (percent)	3.0	7.0	6.0	7.0	8.4	50.0
Goal 4. Reduce child mortality						
Target: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate						
- Under-five mortality rate (per 1,000)	184.0	162.0	144.0	129.0	115.0	65.0
- Infant mortality rate (per 1,000 live births)	111.0	99.0	89.0	81.0	73.0	35.0
- Immunization against measles (percent of children under 12 months)	79.0	65.0	72.0	61.0	61.0	100.0
Goal 5. Improve maternal health						
Target: Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio						
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	790.0	690.0	560.0	460.0	397.0	125.0
Goal 6. Combat HIV/AIDS, malaria, and other diseases						
Target: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
- HIV/AIDS prevalence	0.1	0.8	1.3	1.3	1.8	<2
Target: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
- Incidence of tuberculosis (per 100,000)	77.0	80.0	85.0	89.0	34.0	...
Goal 7. Ensure environmental sustainability						
Target: Halve by 2015 proportion of people without access to safe drinking water						
- Access to improved water source (percent of population)	56.0	61.0	66.0	72.0	63.6	100.0
Goal 8. Develop a global partnership for development						
Target: In cooperation with the private sector, make available benefits of new technologies, especially information and communications						
- Mobile cellular subscriptions (per 100 people)	0.0	0.0	1.0	8.0	35.0	50.0

Sources: Beninese authorities and World Bank estimates and projections.

APPENDIX I—LETTER OF INTENT

REPUBLIC OF BENIN

....

MINISTRY OF ECONOMY AND FINANCE

....

The Minister

To :

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Cotonou, October 24, 2012

Dear Ms. Lagarde:

1. The Government of Benin continues to implement its economic and financial program under the Extended Credit Facility (ECF) in order to achieve its growth and poverty reduction objectives. We wish to take the opportunity of the fourth review to take stock of program implementation at end-June 2012 and to define the policies and reforms we plan to implement in the second half of 2012 and in 2013.

2. Despite a difficult international economic climate, the implementation of our program was satisfactory overall. All the quantitative performance criteria and indicative targets for end-March and end-June 2012 were met. The medium-term economic framework is largely unchanged, and the government reaffirms its resolve to implement the policies and reforms described herein. We hereby request conclusion of the fourth review under the ECF arrangement and the associated disbursement of Special Drawing Right (SDR) 10.61 million.

I. Recent Economic Developments and Program Implementation

A. Recent Economic Developments

Economic developments in 2011

3. The real GDP growth rate was 3.5 percent in 2011 compared to 2.6 percent in 2010. This recovery in economic activity was principally driven by: (i) the significant increase in agricultural production; (ii) increased cotton production; and (iii) the rebound in construction and public works activities, led by infrastructure construction. Inflation remained under control in 2011, standing at 2.7 percent on average, below the convergence criterion of the West African Economic and Monetary Union (WAEMU).

4. The current account deficit (excluding grants) widened in 2011, growing to 10.3 percent of GDP compared to 8.2 percent of GDP in 2010. In particular, the volume of cotton product exports and other exports dropped sharply. However, the improved balance of the capital account and sound behavior of foreign investment made it possible to limit the overall balance of payments deficit to 4.9 percent of GDP.

5. Money supply grew by 9.0 percent in 2011, driven by the foreign assets of the commercial banks and by credit to the private sector and to government following the rebound in economic activity. The net foreign assets of the banking system remained stable overall.

6. The Government continued its prudent external indebtedness policy. At end-2011, the total public debt was equivalent to 30 percent of GDP. The risk of a debt crisis remains low.

7. Measures aimed at reinforcing public finance were implemented throughout 2011, including notably the introduction of the one-stop window at the Port of Cotonou. However, revenue performance at end-2011 fell below expectations at CFAF 605.6 billion, or 17.6 percent of GDP, compared to an objective of CFAF 650.1 billion, owing to problems associated with the implementation of the new-generation import-verification program (IVP) and the resistance of some economic stakeholders. In order to maintain balanced public finances, the government had to contain expenditure to CFAF 754.7 billion, or 21.9 percent of GDP, compared to an objective of CFAF 801 billion. The overall fiscal deficit, on a cash basis and excluding grants, came to 4.9 percent of GDP, in line with the program targets. This deficit was financed as planned by

external resources (grants and concessional borrowing) and issues of securities on the regional financial market.

Economic developments in the first quarter of 2012

8. The inflation rate rose sharply in early January 2012 following the partial elimination of fuel subsidies in Nigeria. Inflation came to 7.4 percent at end-March (year-on-year) up from an average of about 3.0 percent before.

9. There was continued strengthening of public finances in the first quarter of 2012. Total revenue was CFAF 211.6 billion, or 5.6 percent of GDP, surpassing the program target by CFAF 63.3 billion. Overall, expenditure was in keeping with program targets. Consequently, the overall fiscal balance exceeded its target.

10. Customs receipts at end-March 2012 amounted to CFAF 81.0 billion, or 2.2 percent of GDP, exceeding the program target of CFAF 69.6 billion. This performance was largely attributable to the impact of implementing the one-stop window at the Port of Cotonou. Domestic tax receipts amounted to CFAF 71.4 billion, or 1.9 percent of GDP, exceeding the program target. This performance reflects solid collections of the value-added tax (VAT) and property taxes, thanks to the intensification of collection efforts by the tax administration. Nontax revenue increased sharply to CFAF 59.2 billion, or 1.6 percent of GDP. This performance is explained by the additional revenue from the sale of a third-generation (3G) mobile telephone license of CFAF 44 billion, of which only CFAF 9 billion had been programmed.

11. Expenditure execution during the first quarter of 2012 was kept within the program target. Total expenditure and net lending (on a cash basis) came to CFAF 193.2 billion, or 5.1 percent of GDP, compared to a forecast of CFAF 186.6 billion. Primary current expenditure overall slightly exceeded the program target. Investment expenditure was slightly greater than the budgetary targets, largely reflecting the payment of some certified payments (*décomptes*). The indicative benchmark for priority social expenditure was observed, totaling CFAF 51.6 billion compared to a target of CFAF 46 billion thanks to rigorous monitoring.

12. Summing up, all the quantitative performance criteria were met at end-March 2012. The criterion relating to the basic primary balance was observed by a comfortable margin: performance of CFAF 39.0 billion, or 1.0 percent of GDP, compared to an objective of

CFAF -20.5 billion. This reflects the solid performance of the tax and nontax collection agencies (*régies financières)*, quite apart from the revenue associated with the sale of the 3G mobile telephony license. The criterion relating to net domestic financing was also largely observed: performance of CFAF -75.9 billion, or -2.0 percent of GDP, compared with a target of CFAF 43.5 billion (adjusted amount). The criteria relating to the external debt and arrears were observed as well.

Economic developments during the second quarter of 2012

13. Sound fiscal performance continued during the second quarter of 2012 despite the provisional suspension of the IVP in May (see below). Overall, revenue performance at end-June was satisfactory. Total revenue at end-June 2012 came to CFAF 380 billion, or 10.1 percent of GDP, compared to a target of CFAF 331.3 billion. Customs receipts amounted to CFAF 156.4 billion, or 4.2 percent of GDP, compared to a target of CFAF 154.3 billion, thanks to the surplus accumulated during the first quarter. Domestic tax receipts exceeded the program target, reaching CFAF 148.7 billion, or 4.0 percent of GDP, compared to the forecast of CFAF 145.7 billion. This solid performance is attributable to strengthened controls by the tax administration, in particular on the value-added tax (VAT), the tax on industrial and commercial profits, and the corporate tax. Nontax revenue came to CFAF 74.8 billion, or 2.0 percent of GDP, compared to a target of CFAF 31.3 billion. This performance is explained for the most part by the payment of 3G license fees and by the solid performance of other nontax revenue.

14. The control of expenditure commitments introduced at the start of the year was maintained during the second quarter. Total expenditure was below targeted levels at end-June 2012, amounting to CFAF 397.6 billion, or 10.6 percent of GDP, compared to a target of CFAF 437.0 billion. The wage bill reached CFAF 133.0 billion compared to a target of CFAF 134.1 billion. Similarly, investment expenditure was below targeted levels owing to delays in the implementation of some projects.

15. All in all, the basic primary balance exceeded its target of CFAF -39.8 billion, or -1.1 percent of GDP, and net domestic financing exceeded its target of CFAF 60.7 billion. The overall fiscal balance (cash basis excluding grants) came to CFAF 27.3 billion, or 0.7 percent of GDP, compared to a target of CFAF 124.4 billion. This deficit was financed largely by the disbursement under the ECF, World Bank support, and a drawing against the deposits of the

central government, which were reconstituted in part by the issuance of Treasury bills. The benchmarks relating to the external debt and arrears were also observed.

B. Implementation of Structural Reforms in the First Half of 2012

16. The implementation of the structural reforms has had mixed results.

- To address long-standing delays in obtaining development partner support for three tax reform initiatives, the government will fund these reforms out of its 2013 budget; on this basis, the government plans to meet the following three benchmarks by end-March 2013 :
    - The start of the development of a complete and integrated information system at the Directorate-General of Taxes and Government Property (DGID), scheduled for March 2012; it may take up to three years to finalize.
    - The generalization of the taxpayer identification number (TIN) to all taxpayers and to all units of the tax and customs administrations, planned for December 2011.
    - The generalization of the systematic use of the TIN by the Directorate-General of Customs and Indirect Duties (DGDDI) and the cessation of the use of nonspecific numbers in the ASYCUDA++ system (Automated System for Customs Data), planned for end-December 2011.
- Progress has been made with regard to the adoption of a civil service reform strategy by decision of the Council of Ministers, planned for May 2012: the provisional report on the last preparatory study was completed in July 2012 and validated on August 30, 2012; the results of the studies carried out will be used in drawing up the strategy, which is scheduled to be adopted by December 31, 2012.
- The draft law governing pensions, based on the final report on the actuarial audit of the Benin National Retirement Fund (FNRB) and scheduled to be conveyed to the National Assembly in May 2012, was presented in September 2012 following the observations raised in the course of a first reading in the Council of Ministers.

- The operationalization of the computerized transit module of ASYCUDA^{++} between the Port of Cotonou and all the land-based border customs units, planned for March 2012, has been completed; goods in transit have been tracked by this module since September 2012.

- The detailed review of all existing tax and customs exemptions was submitted to the Council of Ministers on schedule in June 2012, including an action plan for implementing the recommendations.

- The finalization of the pilot phase of "Sunkwè" (database of civil servants) was completed; the decision to extend it to the Ministry of Labor and Civil Service (MTFP) was reached on schedule in June 2012; this measure is being implemented with technical assistance from the World Bank.

- Two customs sector reform benchmarks planned for implementation by end-June 2012 were missed owing to the suspension of the services contract related to the IVP: (i) the blocking of the ASYCUDA^{++} fields for the TIN, the inspection certification (AV) number, and the customs value corresponding to the AV; and (ii) the integration of IVP data into the one-stop window to systematize the reconciliation of the certification and attestation functions of the IVP during information processing. To ensure that these reforms can proceed, the government is committed to relaunching the IVP under a new contract. It intends to launch the re-bidding process and select the winner of the new IVP contract by end-March 2013, which would allow the IVP to be re-operational and the two related customs reforms benchmarks to be met by end-June 2013.

- The bank that lost its license in 2009 and had been under provisional administration was placed in liquidation on March 6, 2012, before the planned date of September 2012.

17. The authorities have taken steps to strengthen the financial sector. Of the 12 banks doing business in Benin at end-June 2012, 10 had come into line with the decision of the WAEMU Council of Ministers on increasing minimum capital. One of the two banks whose capital and reserves were not in keeping with that decision has been placed in provisional administration. The authorities are exploring options for the second nonconforming bank. The Law of January 26, 2012 regulating decentralized financial structures in Benin and the law on banking regulation

of June 4, 2012 have been passed by the National Assembly, giving the country modern instruments for rehabilitating the financial sector.

II. Economic, Financial, and Structural Policies for the Future

18. The government will continue the implementation of its economic and financial program to achieve its macroeconomic stability and sustainable development objectives. The government's economic policy is aimed at supporting the economy's return to strong and equitable growth led by the private sector. This choice will require a consolidation of the macroeconomic framework and strengthened structural measures.

A. Macroeconomic Framework

19. The prevailing uncertainties regarding the global economy, and those pertaining to the cotton sector and the IVP (see below), suggest we should be prudent and project growth of 3.5 percent for 2012. The growth rate may be expected to improve in 2013. We currently project a growth rate of 3.8 percent, but are continuing to monitor developments over the second half of 2012. The rebound in economic activity in 2013 would result from, among other things, the ongoing efforts to increase agricultural production and build the capacity of the Port of Cotonou while enhancing its competitiveness. Owing to the impact of the elimination of subsidies on fuel from Nigeria, average annual inflation in 2012 is expected to amount to about 7 percent. However, owing to the easing of price pressures, inflation in 2013 is expected to be close to the 3 percent ceiling adopted within the WAEMU multilateral surveillance framework.

20. The government decided to suspend the framework agreement governing the cotton sector in March 2012 and to organize the approach to crop year 2012/13. This decision was driven by the operational failures identified, in particular the poor governance of the sector, which did little to promote the development of cotton production. Nevertheless, it is projected that in the 2012/13 crop year production will exceed that of crop year 2011/12. In consultation with the private sector, the government will develop and implement a new framework agreement. This new agreement will aim at promoting the integrated development of the sector by production zone, with the objective of effective liberalization, enhanced competitiveness, and greater transparency in governance so as to impart new dynamism to the sector. A regulatory authority will be established to ensure that the sector functions in keeping with the principles set

forth in the framework agreement. The state will continue to provide critical services in the areas in question, such as organizing and providing support to producers, monitoring the provision of production inputs, and gathering statistical information.

21. The government decided temporarily to suspend the contract for IVP services in May 2012 owing to the difficulties experienced with program implementation. Among the problems in question, the government noted the high costs of the services associated with this reform, disputes relating to the scanner inspection of goods for delivery to outlying countries, the spike in prices for mass consumer goods, and the gradual process of turning away from use of the Port of Cotonou as distinguished from other competing ports in the subregion. Given these issues, the government decided to reorient the modalities for implementing selected IVP services, in particular regarding the flexibility of the rates applied. In addition, the cost of user-borne services (other than customs clearance) will be reduced in order to improve the competitiveness of the port. These approaches will be supported by trade missions to other countries of the subregion making use of the port and by targeted measures aimed at reducing the time delays in releasing goods from the port platform itself.

22. The external current account deficit is expected to decline somewhat in 2012 and 2013, in response to the anticipated increase in cotton exports and external budgetary support. This deficit is expected in large measure to be financed by inflows of foreign capital.

B. Fiscal Policy

23. For the remainder of 2012, the government will undertake to limit the basic primary balance at end-December 2012 to CFAF 7.2 billion, or 0.2 percent of GDP. It intends to: (i) strengthen the one-stop window at the Port of Cotonou, ensuring coverage not only of the import side (already operational) but the export side as well; (ii) replace the preshipment inspection by an import control process that will provide information on value; and (iii) maintain discipline with respect to current expenditure, and the wage bill in particular, while speeding up public investment execution.

24. Strengthened controls will contribute to an increase in domestic revenues in 2012, to achieve the target at end-December 2012 of CFAF 710.0 billion, or 18.9 percent of GDP. The progress made regarding nontax revenue will make it possible to offset the projected shortfall in

customs receipts resulting from the slowdown in port activities. The government will continue to accord special attention to priority to social expenditure to achieve the goal of CFAF 134.0 billion by end-December 2012.

25. The government's fiscal policy in 2013 will aim at beginning to create fiscal space to address unanticipated economic developments. Total revenue should come to 19.1 percent of GDP while total expenditure should amount to 22.5 percent of GDP. The basic primary balance would be slightly positive at 0.4 percent of GDP.

26. Customs receipts in 2013 should come to CFAF 356.0 billion, or 8.8 percent of GDP. Supplementing the implementation of the new IVP orientations referred to above, the mobilization of resources at customs should benefit from progress made with computerization, in particular the expansion and operationalization of the ASYCUDA++ transit module. Domestic tax receipts should increase to CFAF 329.0 billion, or 8.6 percent of GDP. Customs receipts and taxes would be supported by, among other things, the efforts of the joint Customs-Taxes team. Nontax revenue should remain at a level comparable to that of the preceding year in terms of GDP (excluding the 3G license).

27. Total expenditure and net lending should amount to CFAF 905.0 billion, or 22.5 percent of GDP, in 2013. The breakdown of expenditure in terms of GDP should remain broadly unchanged from 2012. The wage bill will be limited to CFAF 298.9 billion, an unchanged level in terms of GDP. Investment expenditure of CFAF 272.9 billion, or 6.8 percent of GDP, will contribute to economic growth. The fiscal deficit will be financed by recourse to the regional securities market and the mobilization of grants and external concessional assistance.

C. Structural Reforms

28. While the following do not constitute structural benchmarks under the program, the government nevertheless intends to speed the implementation of the following measures:

- Submission of the 2012 operating accounts to the Audit Office by June 30, 2013, at the latest;
- Implementation of the recommendations made by the December 2011 mission from the IMF's Fiscal Affairs Department;

- Review of the operational framework of the cotton sector to correct for the failures identified and effectively deregulate the sector, this by the beginning of the 2014/15 crop season;
- Implementation of the new orientations for the IVP;
- Introduction of a harmonized database for management of the civil service; and
- Organization of an UNCTAD study mission before December 2012 to replace ASYCUDA^{++} with ASYCUDA World, an improved version of the software.

29. At the financial sector level, the government will ensure the promulgation of the three pieces of regional legislation passed by the National Assembly, namely the framework law on banking regulation, the law on combating the financing of terrorism in the WAEMU member states, and the law on sanctions for violations involving checks, bank cards, and other electronic payment methods. The government will continue its collaboration with regional institutions for the restructuring of two Beninese banks in financial distress and will ensure regular monitoring of the microfinance institutions in difficulty.

III. Growth and Poverty Reduction Strategy

30. The third Growth and Poverty Reduction Strategy (GPRS III) for 2011–15 and its Priority Action Program (PAP) will remain the reference documents for the government's actions in this area. The strategy is aimed at improving the population's living standards and achieving the Millennium Development Goals (MDGs), particularly in the health, primary education, water, and sanitation sectors. The GPRS III identifies two growth scenarios: one scenario based on the macroeconomic framework supported by the ECF and a second more optimistic scenario. In view of recent developments and the outlook for the short and medium term, the first scenario is the one being implemented for the time being, in line with the 2011 JSAN recommendations. The authorities will continue to explore the measures necessary for moving toward the more optimistic scenario, including its financing.

31. The progress report on the GPRS III for 2011 was drawn up and used as the basis for the joint review with development partners in June 2012. It made it possible to highlight the progress made and formulate recommendations for improving implementation of the GPRS III in the years ahead. All in all, 48 percent of the indicators identified in the monitoring framework achieved the

targets set, while 33 percent made progress without meeting the targets and 19 percent showed slippages.

32. The government will continue to devote special attention to the execution of priority social expenditure to protect vulnerable population groups and achieve the MDGs, in particular in the priority sectors mentioned earlier.

IV. Conclusion

33. The government is convinced that the measures and policies described in this letter are appropriate for achieving the program objectives, and it reaffirms its commitment to take any additional measures required. It therefore requests conclusion of the fourth review under the ECF arrangement and the associated disbursement. The fifth review of the program is expected to be completed by end-March 2013, based on the observance of performance criteria as at September 30, 2012. The sixth review of the program is expected to be completed by end-August 2013, based on the observance of performance criteria as of March 31, 2013.

34. Program monitoring will be based on the semiannual performance criteria, quantitative targets, and structural benchmarks defined in Tables 1 and 2 attached to this letter. To facilitate program monitoring, the government will regularly provide IMF staff with all the information required, as defined in the Technical Memorandum of Understanding (TMU), or any other additional information that it considers necessary or that the IMF staff requests.

35. Should it prove necessary, the government will take any further measures that may become appropriate for achieving program objectives. The government will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in this letter, in accordance with the IMF's policies on such consultation. The government authorizes the IMF to publish the staff report on the discussions of the fourth review of the program, and this letter of intent.

Sincerely yours,

/s/

Jonas A. Gbian

Minister of Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2011–13

(Billions of CFA francs)

	December 31, 2011		March 31, 2012				June 30, 2012				Sept. 30, 2012	December 31, 2012	March 31, 2013
	Indicative Targets		Performance Criteria				Indicative Targets				Performance Criteria	Indicative Targets	Performance Criteria
	Outturn		Prog.[1]	Adj. Prog.[2]	Prel.		Proj.	Adj. Proj.[2]	Prel.		Prog.	Proj.	Prog.
A. Quantitative performance criteria [3]													
Net domestic financing of the government (ceiling) [4, 5]	54.7	Met	48.7	43.5	-75.9	Met	60.7	60.7	-20.9	Met	48.6	47.5	29.0
Basic primary balance (excluding grants) (floor)	-2.6	Met	-20.5	-20.5	39.0	Met	-39.8	-39.8	34.5	Met	-21.7	7.2	-18.7
Memorandum item : Budgetary assistance [6]	10.3		0.0	0.0	14.5		14.6	14.6	14.5		14.6	20.9	2.7
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year [7]	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year [7]	4.6	Met	25.0	25.0	4.6	Met	25.0	25.0	4.6	Met	25.0	25.0	25.0
Accumulation of domestic payments arrears	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
C. Indicative targets [3]													
Total revenue (floor)	605.6	Not met	148.3	148.3	211.6	Met	331.3	331.3	380.0	Met	515.0	710.0	172.0
Payment orders issued outside the expenditure chain (ceiling) [8]	9.2	Met	2.5	2.5	1.5	Met	4.6	4.6	1.4	Met	7.5	10.6	2.5
Priority social expenditure (floor)	99.0	Not met	46.0	46.0	51.5	Met	75.0	75.0	82.1	Met	104.0	134.0	50.0

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Technical Memorandum of Understanding of the Second Review.
[2] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnotes 4 and 5 (per Paragraph 8 of the Technical Memorandum of Understanding).
[3] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.
[4] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted *pro-tanto* , subject to limits specified in the Technical Memorandum of Understanding (Paragraph 8).
[5] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast by more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.
[6] Gross disbursements, not adjusted for debt service obligations.
[7] Debt is considered nonconcessional if the difference between the present value (PV) of the debt and its nominal value, as a percentage of the nominal value of the debt, is lower than 35 percent. The ceiling for this continuous performance criterion was raised with effect from the second program review.
[8] Exceptional payment procedures: stock of payment orders issued since the beginning of the calendar year and not yet regularized at each test date.

Table 2 Benin: Structural Benchmarks for 2010–13

Measure	Initial Date/ Revised Date	Objective	State of Execution
Starting the development of a complete and integrated information system at the DGID.	December 31, 2010/ March 31, 2012 / March 31, 2013	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed.
Generalization of the TIN to all taxpayers and all the units of the tax and customs administrations.	December 31, 2010/ December 31, 2011 / March 31, 2013	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed.
Generalization of the systematic use of the TIN by the DGDDI and the cessation of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 to 2999999999949).	December 31, 2010 / December 31, 2011 / March 31, 2013	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed.
Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service.	June 30, 2011 / May 31, 2012 / December 31, 2012	Limit the expansion of the wage bill and maintain fiscal space for investments and priority social expenditures.	Delayed.
Presentation to the National Assembly of a draft law governing pensions, based on the final report of the actuarial audit of the national pension scheme (FNRB).	December 31, 2011 / May 31, 2012 / September 30, 2012	Contain the impact of the FRNB's deficit on public finances by strengthening its financial viability.	Completed.
Operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts.	March 31, 2012	Enhance revenue mobilization.	Completed.
Completion of a detailed review of all existing tax and customs exemption regimes, with a view to rationalizing them; the results of this review will be presented to the Council of Ministers.	June 30, 2012	Increase the efficiency and transparency of public finances, and broaden the tax base.	Completed.
Completing the pilot phase and the decision of the extension of the "Sunkwe" system (civil servants' database) to the Ministry of Labor and Civil Service (MTFP).	June 30, 2012	Improve management of the compensation of civil servants.	Completed.
Block the following fields in the customs declaration (ASYCUDA++): Taxpayer Identification Number (TIN), inspection certification number (AV), and customs valuation corresponding to the AV.	June 30, 2012 / June 30, 2013	Improve customs revenues.	Delayed.
Including the PVI data to the one-stop window to facilitate systematic consistency checks, between the certification and attestation functions during data processing within the one-stop window.	June 30, 2012 / June 30, 2013	Improve customs revenues.	Delayed.
Closing a bank that lost its license in 2009 and was placed in provisional administration.	September 30, 2012	Strengthen the financial sector.	Completed.

ATTACHMENT 1. TECHNICAL MEMORANDUM OF UNDERSTANDING

October 15, 2012

1. This technical memorandum of understanding ("the Memorandum") defines the quantitative performance criteria and benchmarks, and structural benchmarks for the Republic of Benin's program supported by the Extended Credit Facility (ECF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

DEFINITIONS

2. Unless otherwise indicated, "government" is understood to mean the central administration of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government's flow-of-funds table (*Tableau des opérations financières de l'État,* TOFE).

3. The definitions of "debt" and "concessional borrowing" for the purposes of this Memorandum are set out in point 9 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009:

(a) For the purposes of this Memorandum, debt is understood to mean a current, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;

(iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property; and

(iv) Treasury bills and bonds issued in *Communauté Financière Africaine* (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public debt for the purpose of this Memorandum.

Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

(b) A loan is considered concessional if, on the date on which the contract became effective, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organisation for Economic Cooperation and Development (OECD). Specifically, the ten-year average of CIRRs reported by the OECD will be used for loans with maturities of at least 15 years, while the six-month average of CIRRs will be used for loans with shorter maturities. To both the ten-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1.00 percent for repayment periods of 15-

19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

(c) "Domestic debt" is defined as debt denominated in CFA francs, while "external debt" is defined as debt denominated in any currency other than the CFA franc.

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

4. Net domestic financing of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any Central Bank of West African States (*Banque centrale des États de l'Afrique de l'Ouest,* BCEAO) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

5. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and the national commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of government owned entities, with the exception of industrial or commercial public agencies (*établissements publics à caractère industriel et commercial*, EPICs) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including treasury bills and other securitized debt.

6. The figures deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of treasury bills and bonds issued in

CFA francs on the WAEMU regional financial market calculated by the BCEAO and the figures for nonbank financing calculated by the Treasury of Benin.

7. Gross external budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives). Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all external debt (defined, in turn, as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external payments arrears.

Adjustments

8. The ceiling on net domestic financing (NDF) of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 9:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion. However, if the excess is entirely or partly allocated to the settlement of domestic arrears above and beyond the program objective specified in paragraph 9, the NDF ceiling will be lowered by an amount equal to the excess net external budgetary assistance compared with program targets, minus the sum of (a) CFAF 5 billion and (b) the excess repayment of domestic arrears compared with program targets.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 10 billion at end-June 2012; CFAF 20 billion at end-September 2012; CFAF 35 billion at end-December 2012; and CFAF 5 billion at end-March 2013.

9. For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program:

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 14.6 billion at end-June 2012; CFAF 14.6 billion at end-September 2012; CFAF 20.9 billion at end-December 2012; and CFAF 2.7 billion at end-March 2013.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 16.0 billion at end-June 2012; CFAF 23.9 billion at end-September 2012; CFAF 33.7 billion at end-December 2012; and CFAF 5.5 billion at end-March 2013.

- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are CFAF 8.7 billion at end-June 2012; CFAF 13.1 billion at end-September 2012; CFAF 17.4 billion at end-December 2012; and CFAF 4.4 billion at end-March 2013.

- The amounts of settlement of external payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 0 billion at end-June 2012; CFAF 0 billion at end-September 2012; CFAF 0 billion at end-December 2012; and CFAF 0 billion at end-March 2013.

Performance criteria and indicative targets

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 60.7 billion at end-June 2012; CFAF 48.6 billion at end-September 2012; CFAF 47.5 billion at end-December 2012; and CFAF 29.0 billion at end-March 2013. The ceiling is a performance criterion for end-September 2012 and end-March 2013, and an indicative target for end-December 2012.

B. Floor for Basic Primary Fiscal Balance

Definition

11. The basic primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a payment-order basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) the payments of interest on domestic and external debt; and (b) capital expenditure financed by external grants and loans. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

Performance criteria and indicative targets

12. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -39.8 billion at end-June 2012; CFAF -21.7 billion at end-September 2012; CFAF 7.2 billion at end-December 2012; and CFAF -18.7 billion at end-March 2013. The floor is a performance criterion for end-September 2012and end-March 2013, and an indicative target for end-December 2012.

C. Non-accumulation of New Domestic Payments Arrears by the Government

Definition

13. Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (*Caisse Autonome d'Amortissement*, CAA) and the treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement. The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears. The nonaccumulation of new domestic payments arrears will be continuously monitored throughout the program.

D. Non-Accumulation of External Public Payments Arrears by the Government

Definition

15. External public payments arrears are defined as the sum of payments due, but not paid, by the government at the due date specified in the contract, taking into account any applicable grace period, on external debt of, or guaranteed by, the government. The definitions of debt provided in paragraph 3a, of external debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

16. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. The performance criterion on the non accumulation of external public payments arrears will be continuously monitored throughout the program.

E. Ceiling on the Contracting or Guaranteeing by the Government of New Non-concessional External Debt Maturing in a Year or More

Definition

17. This performance criterion applies not only to debt as defined in paragraph 3a, but also to commitments contracted or guaranteed by the government (as defined in paragraph 18) (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 3c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. The definition of nonconcessional debt in paragraph 3b applies here.

18. The concept of "government" used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new short-term external debt, includes the government, as defined in paragraph 2, local governments, and all public enterprises, including administrative public agencies (*établissements publics à caractère*

administratif), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Continuous performance criterion

19. No nonconcessional external borrowing will be contracted or guaranteed by the government for the duration of the program, except for borrowing with a grant element of at least 20 percent and not exceeding a cumulative amount equivalent of CFAF 25 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) for specific investment projects whose financial viability and profitability have been evaluated and approved by a recognized institution, and on condition that the loan does not seriously exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

20. The government also undertakes not to contract or guarantee any external debt during the implementation of the program without first having determined its concessionality with IMF staff.

F. Ceiling on the Contracting or Guaranteeing by the Government of New Non-concessional Short-Term External Debt

Definition

21. The definitions in paragraphs 17 and 18 also apply to this performance criterion.

22. Short-term external debt is debt with a contractual term of less than one year. Import- and export-related loans, treasury bills issued in CFA francs on the WAEMU regional market, normal short-term supplier credits, and debt relief operations are not covered by this performance criterion.

Performance criterion

23. The government undertakes not to contract or guarantee short-term nonconcessional external debt.

24. The government also undertakes not to contract or guarantee any short-term external debt during the implementation of the program without first having determined its concessionality with IMF staff.

25. On June 30, 2012, Benin had no short-term external debt.

INDICATIVE TARGETS

A. Floor for Government Revenue

Definition

26. Total government revenue includes tax and nontax revenue as shown in the TOFE, but excludes external grants, revenue of autonomous agencies, and privatization receipts.

Indicative targets

27. The indicative targets for total government revenue (cumulative since January 1 of the same year) are set as follows: CFAF 331.3 billion at end-June 2012; CFAF 515.0 billion at end-September 2012; CFAF 710.0 billion at end-December 2012; and CFAF 172.0 billion at end-March 2013.

B. Ceiling on Exceptional Payment Procedures

Definition

28. Exceptional payment procedures (*ordres de paiement hors de la chaîne de dépenses*) are defined as expenditures of a budgetary nature that are not executed following the stages of expenditure commitment (*engagement*) and validation (*liquidation)* before the payment order (*ordonnancement*) is issued, and that have not been regularized on the test date.

Indicative targets

29. The government undertakes to limit total expenditures (cumulative since January 1 of the same year) effected by exceptional payment procedures to a ceiling of CFAF 4.6 billion at end-June 2012; CFAF 7.5 billion at end-September 2012; CFAF 10.6 billion at end-December 2012; and CFAF 2.5 billion at end-March 2013.

C. Floor for priority social expenditures

30. Priority social expenditures are determined in line with the priority programs identified in the Growth and Poverty Reduction Strategy for 2011–15 (GPRS III). These expenditures consist of selected (nonwage) expenditures *inter alia* in the following sectors: health; energy and water; agriculture; youth, sports and leisure; family and national solidarity; education, microfinance and employment; and culture, literacy, and the promotion of national languages. Their execution is monitored on a payment-order basis during the program, through the integrated fiscal management system (SIGFiP).

Definition

31. The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1.

Table 1. Priority Social Expenditure Categories

Budget code	Description
36	Ministry of Health
37	Ministry of Energy, Petroleum and Mineral Research, Water, and Development of Renewable Energy
38	Ministry of Culture, Literacy, Crafts and Tourism
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family, Social Affairs, National Solidarity, and Disabled and Senior Citizens
44	Ministry of Higher Education and Scientific Research
49	Ministry of Microfinance and for the Employment of Youth and Women
62	Ministry of Maternal and Primary Education
63	Ministry of Secondary, Technical, and Professional Training, Reconversion and Inclusion of Youth

Indicative targets

32. The indicative targets for priority social expenditures (cumulative since January 1 of the same year) are set as follows: CFAF 75.0 billion at end-June 2012; CFAF 104.0 billion at end-September 2012; CFAF 134.0 billion at end-December 2012; and CFAF 50.0 billion at end-March 2013.

INFORMATION FOR PROGRAM MONITORING

A. Data on Performance Criteria and Indicative Targets

33. To facilitate effective program monitoring, the government will provide IMF staff with the following data:

Every month:

- copies of the contracts and data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;
- monthly consumer price index, within two weeks of the end of the month;
- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the SIGFiP, within six weeks of the end of the month;
- data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month; and
- the monetary survey, within eight weeks of the end of the month.

Every quarter:

- data pertaining to the amount of exceptional payment procedures or other exceptional measures, within six weeks of the end of the quarter; and
- data pertaining to priority social expenditures, within six weeks of the end of the quarter.

B. Other information

34. The government will provide Fund staff with the following data:

Every month:

- banking and nonbanking supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.

Every quarter:

- data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and
- data on the stock of external debt, external debt service, the signing of external loans and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

- in the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget execution law; as well as any decree or law pertaining to the budget or implementation of the IMF-supported program.

APPENDIX II—BENIN: DEVELOPMENTS IN THE COTTON SECTOR

Cotton has historically played a dominant role in Beninese exports and represented a large fraction of GDP. While its importance has declined significantly, it continues to occupy the attention of policy makers because of the large number of rural poor involved in the activity and hence the close relationship between the performance of the cotton sector and rural poverty and well-being. Following a disappointing harvest in 2011/12 and governance concerns, the authorities assumed operational control of input procurement and distribution in the cotton sector this year and will also control the post-harvest marketing and sales. Preliminary information at the time of the writing of this note suggests a significant improvement in production volume for the 2012/13 season. The authorities are considering a new framework agreement for the sector in order to return many of these functions to the private sector in time for the 2014/15 season.

Background

1. The cotton sector has historically accounted for a significant fraction of GDP and dominated formal exports in Benin, as in other West African states. Cotton production attracts the attention of policy makers for several reasons beyond its significant economic weight. Cotton farming involves a large number of rural workers who do not otherwise participate in the formal economy, and the government provides significant input subsidies (e.g., fertilizers, herbicides, and pesticides), which are distributed as part of support to the cotton sector, but also go to other widely grown crops. The banking sector is also heavily implicated, as it provides seasonal credit (*crédit de campagne*). Most importantly, the government has a critical role to play in alleviating significant market failures inherent to the production process, including input provision and access to credit.[1]

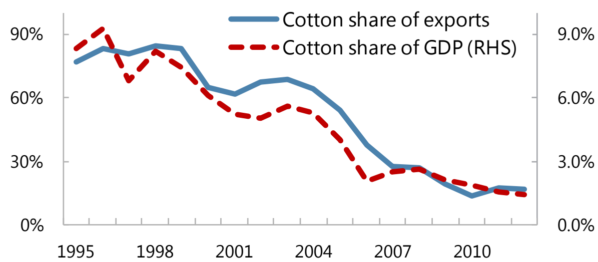
A. Trends in Cotton Production and Export

2. The economic importance of cotton has declined steadily over the last two decades. The final value of cotton for export, representing almost all of the total value of cotton products in Benin, declined from 77 percent of exports in 1995 to 17 percent in 2011, and from 8.4 percent of nominal GDP to 1.6 percent during the same period. Even if this year’s harvest equaled the largest harvest on record by volume, it would amount to only 2.3 percent of GDP in 2013. These trends may

[1] This annex was prepared by Kevin Wiseman.

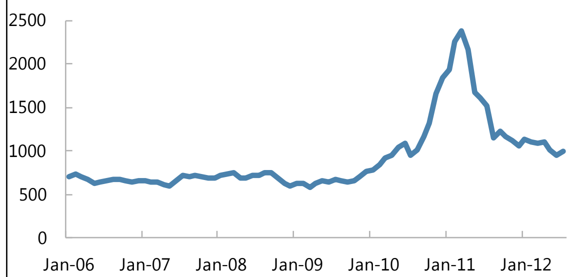
be explained by the long run decline in the real price of cotton, a history of payment delays to farmers, and stagnant yields per hectare compared to overall productivity growth.

Cotton Production and Economic Activity



Sources: Beninese authorities; IMF staff estimates.
Exports and GDP are compared to ginned cotton for export.

World Cotton Price in CFA Francs



Sources: Cotton Outlook `A Index`, Middling 1-3/32 inch staple, CIF Liverpool; IMF staff calculations.

3. International cotton prices spiked dramatically in 2010 and 2011, peaking 250 percent above the average price between 2006 and 2009. They have since fallen precipitously, but remained 50 percent above the average as of July 2012. Much of Benin's exported cotton is of high quality, because it is harvested manually and benefits from a favorable climate, especially in the north. However, the average sales price is typically slightly below the international price for mid-quality cotton, possibly because of a discount linked to selling forward the harvest to minimize price risk.

B. Policy Evolution

4. Over the last two decades, the cotton sector was slowly liberalized. By 2000, the parastatal ginner, *Société Nationale de la Promotion de l'Agriculture* (SONAPRA), coexisted with a number of private ginners, and saw many of its other traditional activies, such as input supply and export marketing, replaced with more competitive arrangements. Much of the coordinating of cotton production activities was taken on by the interprofessional cotton association (*Association Interprofessionnelle du Coton*, AIC), while financial matters were handled by a financial clearing house (*Caisse de Stabilisation et de Régulation des Prix*, CSRP). The privatisation of SONAPRA's remaining gins was agreed to as part of the Highly Indebted Poor Countries (HIPC) debt-reduction initiative.

5. By the middle of the last decade (2000-10), poor management and ballooning losses in the midst of low world prices, which threatened Benin's macroeconomic situation, brought forward the need to privatize. Several aborted attempts were made to put SONAPRA's gins up for sale in four lots, but progress stalled. In 2008, under very tight time constraints, the gins were sold in a single

block to a consortium headed by a Beninese businessman, who was already active in the sector with private ginning assets and in input supply. This significantly concentrated control of the sector in private hands.

Developments During the 2012/13 Season

C. Suspension of the Framework Agreement for Cotton

6. As discussed in Box 3, the government temporarily suspended the framework agreement for cotton (*Accord-Cadre du Coton*) in April of this year, that has governed the sector since 2009. The government cited final production outturn for the 2011/12 season, which was more than 30 percent below expectations, in spite of government charges of excess supply of state-subsidized fertilizers, relative to the area under cultivation. Based on alleged governance concerns arising from these results, the state assumed control of the management of the 2012/13 cotton campaign.

7. For the current season, the government is directly involved in most steps of input procurement and distribution and cotton delivery to gins and export sale of fiber. It initiated its own input procurement and delivery process, supplied inputs on credit to cotton producers' associations, as well as advice and monitoring of the cultivation process. As harvesting begins, significant uncertainty remains about ginning, since the facilities remain in private hands. The authorities foresee a tolling model this year, in which the government retains ownership of the cotton and pays a fixed per metric ton fee for ginning. Existing ginning capacity is in excess of projected production, so partial participation by private ginners would likely be sufficient. Little to no cotton has been sold forward to date and thus price risks remain.

D. Production During the 2012/13 Campaign

8. The area under cultivation for this year's crop is estimated to have has expanded dramatically, because of a historically high buying price for cotton farmers, a reduction in costs of subsidized inputs offered by the state, and concerted efforts to encourage cotton production by the authorities. Estimates suggest that there are between 340,000 and 360,000 hectares[2] under cultivation, which under average historical yields of slightly more than 1.0 ton per hectare, would

[2] A hectare equals 2.47 acres.

produce significantly more cotton than has been seen in the last eight seasons. Optimistic yield projections imply a return that would rank among the largest harvests on record.

9. There had been some concern early in the growing season that disruptions due to the change in management would cause problems in the delivery of necessary inputs. In some regions there were reports of delays in the delivery of fertilizer, which caused them to be applied outside their recommended time period. The belated provision of insecticides in some regions was a potentially even more serious concern. However, it would seem that these early disruptions were corrected in time, and pest incidence has remained moderate. Together with favorable rainfall, the increased area of cultivation has thus contributed to rising optimism about the next harvest.

Policy Going Forward

10. The Beninese authorities foresee a significant restructuring of the sector before it is returned to private control. A new framework agreement would likely include a zoning model in which farmers' producer associations are grouped into zones and enter into an exclusive relationship with particular ginners. The zoning model is widely viewed as a success in Burkina Faso and is credited with greater farmer participation and increased production, although other arrangements which achieve similar ends while providing more competition have been tried in other countries. The authorities intend to remain involved in training, technical assistance to farmers, and production data collection.

11. The development of a zoning model will take time to develop. This change will need to be carefully designed. It is anticipated that the government will continue direct operation of the production process through the 2013/14 harvest, and implement the new model for the 2014/15 season, for which the input procurement process would begin in late 2013.

APPENDIX III—BENIN: EXTERNAL STABILITY ASSESSMENT

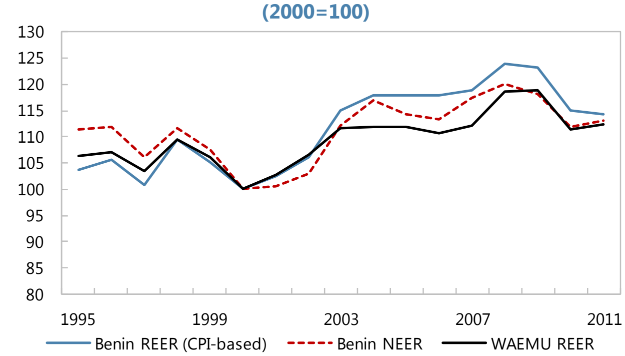
The external stability assessment for Benin indicates a deterioration of the external position and a moderate real exchange rate overvaluation. Empirical assessments suggest that the current account deficit exceeds its medium-term equilibrium by about 4 to 6 percentage points of GDP, and the real effective exchange rate (REER) is overvalued by 15 percent, on average. These results differ moderately from the findings of the 2011 Article IV consultation with the West African Economic and Monetary Union (WAEMU), which concluded that the REER for the aggregate WAEMU group was broadly in line with fundamentals. The analysis of structural indicators based on survey data confirms the empirical findings and points to Benin's low external competitiveness.

External Sector Developments and Assessment

1. Benin's external current account deficit (excluding grants) widened over the past several years reflecting the weak performance of traditional exports and higher international import prices. In the years before 2007, the current account deficit remained moderate at about 6.5 percent of GDP. It widened sharply between 2007 and 2009, mainly reflecting higher world food prices. After a temporary improvement in 2010, the current account deficit widened again to 10.3 percent in 2011, because of the weak performance of cotton exports and a decline in investment income.[1]

1. Although the REER depreciated over the past two years, it has appreciated significantly over the period 1995-2008 (Figure 1). During 2009-11, the REER depreciated by about 7 percent, reflecting Benin's lower inflation differential with trading partners and mirroring the evolution of the nominal effective exchange rate (NEER). Nevertheless, this depreciation did not offset the cumulative appreciation of about 20 percent over the period 1995-2008, suggesting an erosion of external price competitiveness.

Figure 1. Benin and WAEMU: Effective Exchange Rates, 1995–2011
(2000=100)



Source: IMF staff estimates

[1] This appendix was prepared by Aleksandra Zdzienicka.

2. External financing of the current account deficit, with the exception of current official transfers, remained relatively stable over the last decade. Foreign direct investment inflows averaged about 2 percent of GDP and represented 70 percent of total capital inflows. Short-term capital flows and medium- and long-term private loans were equivalent to 1 and 0.3 percent of GDP, respectively. Other capital flows, such as project loans, remained at 2 percent of GDP. Though stable in the past, external financing is heavily dependent on donor and market confidence in Beninese institutions and thus depends on continued progress with structural reforms and sustained prudent macroeconomic policies.

3. Foreign exchange reserves are adequate and debt risks remain contained. Gross external debt is relatively low (around 17 percent of GDP) and has been stable since Benin completed the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Reduction Initiative (MDRI) processes. The debt sustainability analysis (Supplement 2) indicates a low risk of debt distress. The level of foreign exchange reserves in the WAEMU system is adequate at over 6 months worth of imports of goods and services, covering 60 percent of broad money and 100 percent of short-term debt.

Model-Based Assessment

4. Empirical assessments suggest a deterioration of the external position and a moderate overvaluation of the REER. These assessments are based on the three complementary Consultative Group on Exchange Rate Issues (CGER) model-based approaches: (i) macroeconomic balance approach; (ii) equilibrium real exchange rate (ERER) approach; and (iii) external sustainability approach. They indicate the exchange rate is overvalued by 15 percent, on average.

A. Macroeconomic Balance Approach

5. The macroeconomic balance approach estimates the exchange rate adjustment necessary to close the gap between the equilibrium current account balance (the "norm"), based on economic fundamentals, and the underlying current account balance. The method consists of three steps. First, the equilibrium current account balance is estimated based on a set of macroeconomic fundamentals.[2] Second, the underlying current account balance is calculated as an average of the:

[2] The equilibrium current account balance (CAB) is estimated using a fixed effects panel specification for a panel of 184 countries over the period 1973-2011. The preferred specification includes the following explanatory variables: growth per capita in relative terms; oil balance; fiscal balance; net foreign assets (NFA); and foreign aid inflows, all as

(continued)

(i) five-year moving average of the actual current account balance; (ii) five-year World Economic Outlook (WEO) projections of the current account balance; (iii) smoothed actual current account balance; and (iv) observed 2011 current account balance (Text Table 1). Third, the exchange rate adjustment necessary to close the gap between the equilibrium and the underlying current accounts is computed using Benin-specific trade elasticity with respect to the real exchange rate.[3]

Text Table 1. Benin: Estimates of the Underlying Current Account for 2011

(Percent of GDP)

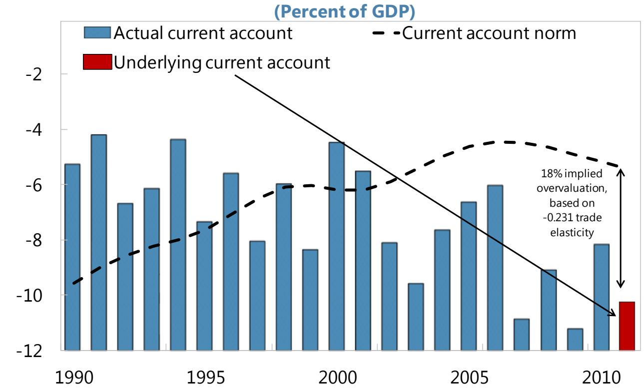
Method	Estimates for 2011
Five-year WEO projection	-8.8
Observed balance in 2011	-10.3
Five-year moving average	-9.9
Hodrick-Prescott filter	-10.0
Average	**-9.8**

Source: IMF staff estimates.

6. The macroeconomic balance approach suggests the REER is moderately overvalued (Figure 2). The equilibrium and the underlying current account deficits are estimated at about 5½ percent and 10 percent of GDP, respectively. These estimates imply that a depreciation of about 18 percent percentage points would be necessary to close the gap between them.

Figure 2. Benin: Current Account Balance, Excl. Grants, 1990–2011

(Percent of GDP)



Source: IMF staff estimates.
Note: For the computation of *the underlying current account balance* see Table 1.

B. Equilibrium Real Exchange Rate Approach

7. The ERER is estimated as a function of its medium-term fundamentals.[4] The degree of exchange rate misalignment is then computed as the difference between the actual REER and its equilibrium value.

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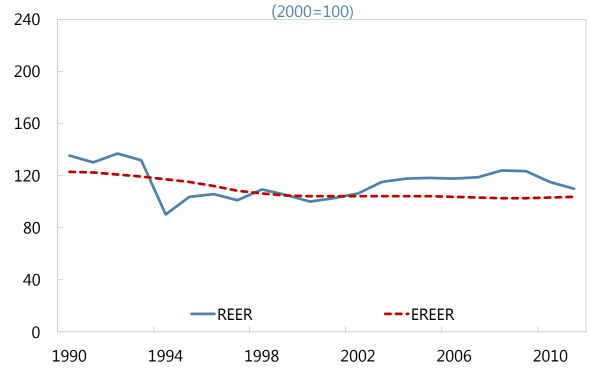
a percentage of GDP. The model has been estimated using a generalized method of moments (GMM) estimator. Data are taken from the IMF's WEO.

[3] Benin's trade elasticity is estimated at -0.231.

[4] The model specification includes the following fundamentals: terms of trade; relative productivity computed as GDP per working population; remittance inflows as a percentage of GDP; and oil balance. The inclusion of remittances as an explanatory variable improves the overall fit of the model.

8. The ERER method indicates a moderate overvaluation of the exchange rate. The results show the overvaluation of the REER decreased from about 20 percent in 2009 to about 4 percent in 2011 (Figure 3).

Figure 3. Benin: Equilibrium and Real Effective Exchange Rates, 1990–2011
(2000=100)



Source: IMF staff estimates.

C. External Sustainability Approach

9. The external sustainability method compares the actual current account balance with the balance that stabilizes the net foreign assets (NFA) at a certain benchmark level. The NFA-stabilizing current account balance (in percent of GDP) is derived using medium-term projections for real GDP growth and inflation, and NFA in percentage of GDP at the end of the prior year. The REER misalignment is then determined as in the macroeconomic balance approach.

10. Application of the external sustainability approach to Benin indicates that the REER is overvalued by about 20 percent in real effective terms. The magnitude of the misalignment ranges from 10 percent (in the case of high foreign direct investment) to 30 percent (in the case of low foreign direct investment).

D. Combining the Three Approaches

11. Taken together, the estimation results from the three approaches point to a moderate overvaluation of the REER of about 15 percent (Text Table 2). These results, however, have to be considered with caution. First, they are sensitive to a wide range of assumptions made in the construction of the baseline scenario. Second, they are sensitive to the assumed elasticity of the current account balance with respect to the real exchange rate.

Text Table 2. Benin: Model-Based Approach Results

	CAB/GDP		REER
	Norm	Underlying	
Macrobalance	-5.6	-9.8	-18.1
ERER	…	…	-4.3
Ext. sustainability	-4.6	-9.8	-22.4
Simple average			**-14.9**

Source: IMF staff estimates.

Survey-Based Assessment

12. Structural indicators based on survey data point to low external competitiveness. Three survey-based reports presented in this section are the: (i) Global Competitiveness Index; (ii) Doing Business Indicators; and (iii) Global Enabling Trade Index. They suggest that several institutional and policy factors provide serious impediments to external competitiveness.

A. Global Competitiveness Index

13. The World Economic Forum's 2012-13 Global Competitiveness Index (GCI) ranks Benin 119th out of 144 countries, with an overall score of 3.6 out of 7 (Table 1). Benin's score deteriorated over the last three years. Benin ranks higher than the sub-Saharan African (SSA) average on basic requirements (macroeconomic environment and health and primary education) and innovation and sophistication factors, but lower in efficiency enhancers (good market efficiency, financial sector development, technology readiness, and market size). Firms identify corruption, access to financing, inadequate infrastructure, and tax regulations as the major constraints to doing business in Benin (Figure 4).

B. Doing Business Indicators

14. The World Bank's 2012 Doing Business Indicators also reduced Benin's ranking (Text Table 3). Benin moved down six places compared to 2009 and is ranked 175th out of 183 countries in terms of business climate, trailing most other WAEMU countries. Benin faces challenges in protecting investors' rights, enforcing contracts, and paying taxes. Starting a business remains difficult, despite important reforms introduced in 2010-11 to facilitate access to credit (the Organization for the Harmonization of Business Law in Africa Act).

Text Table 3. Benin: Doing Business in the WAEMU

	2009	2010	2011	2012
Benin	**169**	**172**	**173**	**175**
Burkina Faso	148	147	151	150
Côte d'Ivoire	161	168	170	167
Guinea-Bissau	179	181	181	176
Mali	166	156	148	146
Niger	172	174	172	173
Senegal	149	157	157	154
Togo	163	165	158	162
WAEMU	163	165	164	163

Source: World Bank, Doing Business Indicators.

C. Global Enabling Trade Index

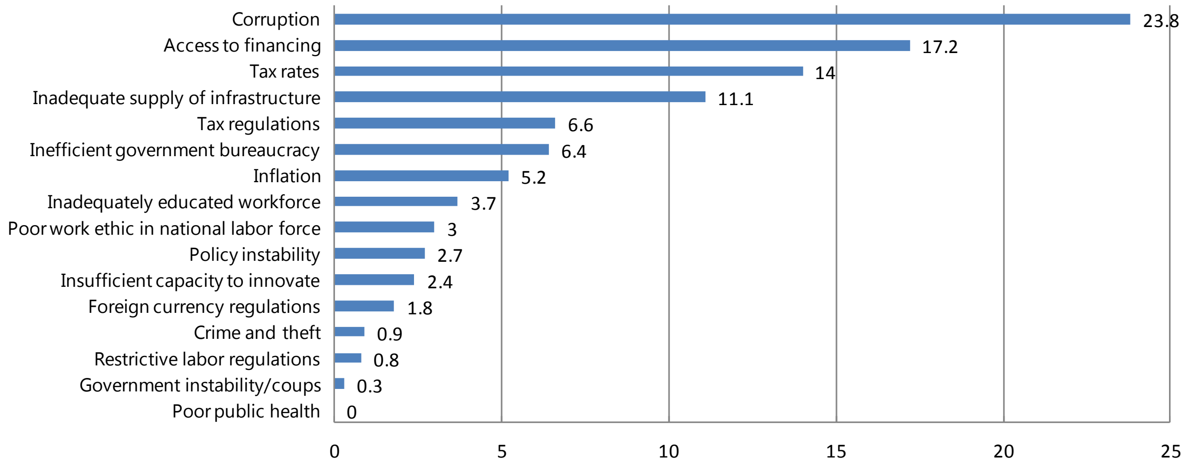
15. The World Economic Forum's 2012 Global Enabling Trade Index (ETI) ranks Benin 115th out of 132 countries with an overall score of 3.4 out of 7 (Table 2). Among the different sub-indicators of

the ETI, Benin ranks lowest on domestic market access (121), availability and quality of transport infrastructure (115), availability and use of information and communication technologies (109), and efficiency of custom administration (113). Factors that have the highest negative impact on the ease of exporting and importing include access to trade finance, burdensome procedures, and tariff and non-tariff barriers (Figures 5 and 6).

Conclusion

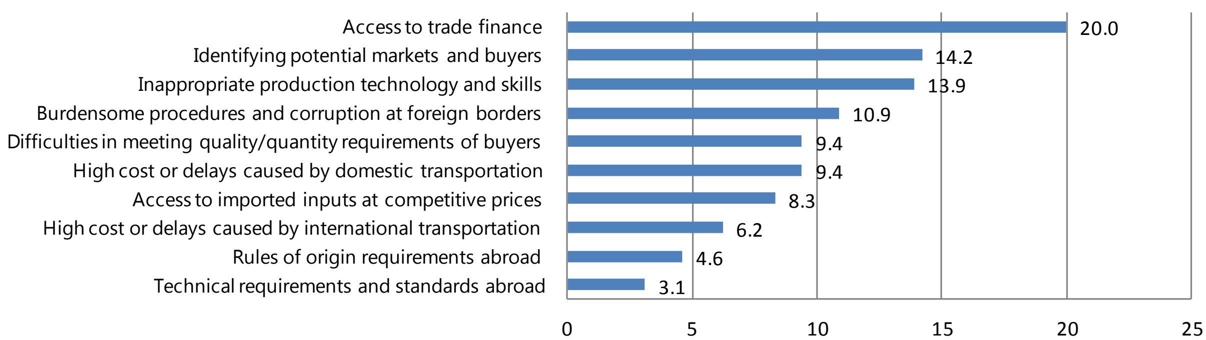
16. Benin's external position has deteriorated recently in association with a moderate misalignment of the real exchange rate and challenges with external competitiveness. Survey-based competiveness indicators point to the necessity of improving the country's competitiveness and institutional capacity. Sustained capital and financial account inflows will depend on consolidating recent successes in macroeconomic management and reinforcing efforts toward structural reform.

Figure 4. Benin: The Most Problematic Factors for Doing Buisness
(Percent of responses)



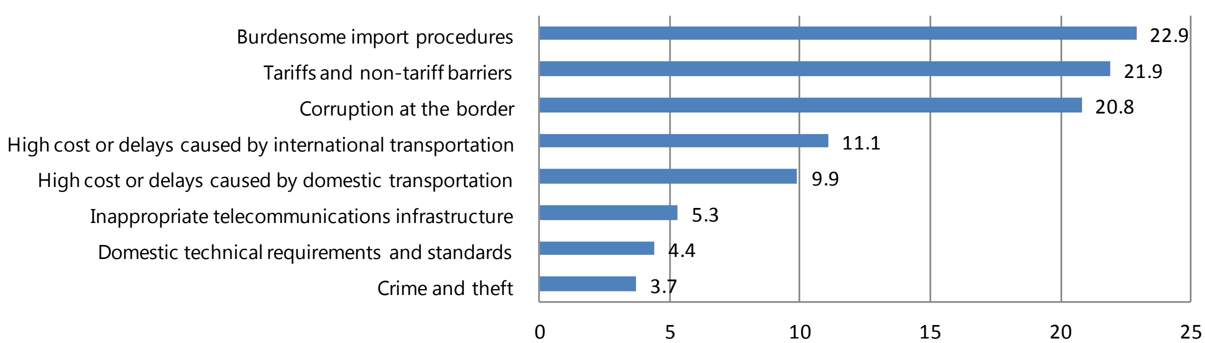
Source: World Economic Forum. The Global Competitiveness Report, 2012–13

Figure 5. Benin: Most Problematic Factors for Exporting
(Percent of responses)



Source: World Economic Forum. The Global Enabling Trade Report, 2012.

Figure 6. Benin: Most Problematic Factors for Importing
(Percent of responses)



Source: World Economic Forum. The Global Enabling Trade Report, 2012.

Table 1. Benin: Global Competitivenss Index 2012–13			
	Benin		Sub-Saharan Africa (Average)
	Rank (Out of 144)	Score (1–7)	Score (1–7)
GCI 2012–13	**119**	**3.6**	**3.7**
GCI 2011–12 (out of 142)	104	3.8	
GCI 2010–11 (out of 139)	103	3.7	
Basic requirements (60%)	**113**	**3.8**	**3.6**
Institutions	99	3.5	3.6
Infrastructure	122	2.6	2.7
Macroeconomic environment	76	4.6	4.3
Health and primary education	111	4.7	4.1
Efficiency enhancers (35%)	**125**	**3.3**	**3.5**
Higher education and training	120	3.1	2.9
Goods market efficiency	132	3.7	3.9
Labor market efficiency	67	4.4	4.3
Financial sector development	112	3.6	3.8
Technology readiness	124	2.8	3.0
Market size	122	2.5	2.7
Innovation and sophistication factors (5%)	**111**	**3.1**	**3.0**
Business sophistication	125	3.2	3.3
Innovation	84	3.0	2.8

Source: World Economic Forum, The Global Competitiveness Report, 2012–13.

Table 2. Benin: Enabling Trade Index, 2012		
	Rank (out of 132)	**Score** (1–7)
Composite Index	115	3.39
Subindex A: Market access	121	3.17
Domestic market access	118	3.55
Foreign market access	84	2.39
Subindex B: Border administration	104	3.20
Efficiency of customs administration	113	2.96
Efficiency of import-export procedures	94	3.99
Transparency of border administration	103	2.65
Subindex C: Transport and communications infrastructure	103	3.10
Availability and quality of transport infrastructure	115	3.08
Availability and quality of transport services	63	3.75
Availability and use of ICTs	109	2.47
Subindex D: Business environment	79	4.10
Regulatory environment	88	3.51
Physical security	76	4.70

Source: World Economic Forum. The Global Enabling Trade Report, 2012.

APPENDIX IV—BENIN: RISK ASSESSMENT MATRIX[1]

Source of Risks	Likelihood of Realization in the Next 1–3 Years	Impact if Realized
	External (exogenous) risks	
1. Further reduction of fuel subsidies in Nigeria	**Medium** • The Nigerian authorities plan to eliminate the gasoline subsidy, but further reductions are not planned at this time.	**High** • A reduction of fuel subsidies in Nigeria would be fully passed through to Benin's informal fuel market, sharply raising the price of transportation and inflation (temporarily).
2. Changes in Nigeria's trade policy and operation of the Port of Lagos	**Low** • Decisions by Nigeria to fully liberalize trade, eliminate import prohibitions and streamline operations at the Port of Lagos are likely to take place, but not in the short to medium term.	**High** • A decision by Nigeria to liberalize trade would significantly reduce transit trade in Benin, curtail activity at the Port of Cotonou, decrease fiscal revenue and dampen economic activity. • A substantial ease of processing imports at the Port of Lagos would have the same impact, by diverting traffic from the Port of Cotonou.
3. A protracted growth downturn scenario	**Medium** • Benin would be exposed to a prolonged global downturn directly through the impact on trade with the main partners for formal trade and through the impact of the global downturn on economic activity in Nigeria, which would affect informal trade.	**Low** • Staff projections (VE LIC exercise September 2012) indicate that a protracted growth downturn would impact Benin mainly through the revenue-to-GDP ratio; there would be a medium impact on growth, the financing gap, and reserves in months of imports.
	Internal (endogenous) risks	
4. Continued difficulties at the Port of Cotonou	**Medium** • The import-verification program is still not operating, and there has been a reversal of some customs reforms; full implementation is needed to bring operations closer to international best practices. • Some ship traffic may have been permanently diverted to other regional ports.	**High** • A slowdown at the Port of Cotonou has significant impacts on fiscal revenue, economic activity, exports, and on the banking system (through the loan portfolio). The Port of Cotonou needs to modernize its operations to remain competitive.
5. Lower/higher-than-projected yield of the cotton harvest	**Low** • While it is yet too early to have a clear assessment of the projected cotton harvest, the likelihood seems to be shifting to the upside in recent weeks.	**Medium** • Lower -than-projected cotton harvests would weaken economic activity and exports, while also increase fiscal spending and contingent liabilities (through the public guarantees provided for financing). • Higher-than-projected cotton harvests would improve growth, exports, and fiscal revenue.
6. Wage slippages and further delays in the structural reform agenda.	**Medium** • Pressures from civil servants ahead of the elections may increase the risks of wage slippages, but the authorities have so far kept the wage bill within the program envelope. • Progress on structural benchmarks has been repeatedly weak.	**High** • A higher wage bill would crowd out priority social spending and public investment. • Failing to move forward with the structural reform agenda hinders the much-needed increase in growth to reduce poverty.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

BENIN

October 26, 2012

2012 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—FINANCIAL SECTOR REVIEW

Prepared by The African Department and the Monetary and Capital Markets Department, in collaboration with the World Bank

This enhanced review of Benin's financial sector is the first of several pilot reviews called for by the Executive Board in May 2012. The purpose of the reviews is to better understand the interplay between financial deepening, macrostability, and effectiveness of macroeconomic policies in low-income countries, under bilateral surveillance.

This study follows a "bottom up" approach and goes beyond the traditional surveillance focus on banking system soundness and solvency. It looks at the actual way the financial sector operates in Benin, as opposed to a mere survey of existing regulations and indicators. It examines the financial sector's depth, breadth, and reach, as well as these factors' relevance for the effectiveness of macroeconomic policies.

Benin's financial sector is shallow, segmented, and provides limited financial inclusion. The banking sector, dominated by 12 international banks, is generally sound, but plays a limited role in financial inclusion. Conversely, the microfinance sector has good reach, but the volumes it handles are small, and the bulk of its institutions operate without adequate supervision. The sector would benefit from a consolidation and a strategic reorientation toward micro- and small enterprises. The interbank market is virtually nonexistent, and the government securities market tends to crowd out lending to the private sector.

The effectiveness of the regional monetary policy is constrained by the shallowness of the financial system and a number of structural impediments, including insufficient property and creditor rights; excess liquidity in the largest banks; and lack of competition among banks. As a result, monetary policy has limited traction in Benin.

The study makes a number of recommendations. Most important among them are the establishment of better institutional and market infrastructure that could help banks better assess risks; and the strengthening of supervision, both for banks and microfinance institutions.

CONTENTS

TABLES

Selected Abbreviations

ACIM	African Conference of Insurance Markets (*Conférence Africaine des Marchés d'Assurances*)
ALAFIA	Professional Association of Microfinance Institutions (*Association Professionnelle des Systèmes Financiers Décentralisés*)
BCEAO	Central Bank of West African States (*Banque Centrale des États de l'Afrique de l'Ouest*)
BC-WAEMU	Banking Commission of the West African Economic and Monetary Union
BOAD	Regional Developpment Bank (*Banque Ouest-Africaine de Développement*)
CEMAC	Central African Economic and Monetary Union (*Communauté Économique et Monétaire de l'Afrique Centrale*).
CFAF	Franc of the African Financial Community (*Communauté Financière Africaine Franc*)
CGAP	Consultative Group to Assist the Poor
CREPMF	Regional Council for Public Savings and Financial Markets (*Conseil Régional de l'Épargne Publique et des Marchés Financiers*)
CRRH-UÉMOA	WAEMU Financial Entity for the Refinancing of Mortgage Loans (*Caisse Régionale de Refinancement Hypothécaire de l'UÉMOA*)
CSFASM	Committee for Financial Stability and Rationalization of the Microfinance Sector (*Comité de Stabilité Financière et d'Assainissement du Secteur de la Microfinance*)
CSSFD	Unit in Charge of Decentralized Financial Entities (*Cellule de Surveillance des Structures Financières Décentralisées*)
ECF	Extended Credit Facility
FAGACE	African Guarantee and Cooperation Fund (*Fonds Africain de Garantie et de Coopération Économique*)
FECECAM	Federation of Savings and Rural Loan Cooperatives (*Fédération des Caisses d'Épargne et de Crédit Agricole Mutuel*)
FSAP	Financial Sector Assessment Program
IMF	International Monetary Fund
LIC	Low-Income Country
NCC	National Council of Credit (*Conseil National du Crédit*)
MFI	Microfinance Institution
MOFE	Ministry of Finance and Economy
MSME	Micro, Small, and Medium-Size Enterprise
NFM	National Fund for Microcredit (*Fonds National de Microcrédit*)
NPL	Nonperforming Loan
SSA	Sub-Saharan Africa(n)
T-bill, T-bond	Treasury Bill or Bond
WAEMU	West African Economic and Monetary Union (*Union Économique et Monétaire Ouest-Africaine*)

BACKGROUND

1. Benin has been selected to be the first of several pilot cases for enhanced surveillance of financial systems, called for by the International Monetary Fund's (IMF) Executive Board in May 2012. The Board stressed the need to widen the scope of financial sector surveillance in low-income countries (LICs) in Article IV consultations to better account for the interplay between financial deepening, macro-stability and the effectiveness of monetary policy, in line with the recommendation of the 2011 Triennial Surveillance Review.[1] The call was grounded in the observation that financial underdevelopment amplifies vulnerability to macro-financial shocks, and limits the effectiveness of macroeconomic, growth, and poverty alleviation policies by channeling part of savings toward unproductive investments, raising credit risks to market participants, and limiting the range and efficiency of available policy instruments.[2]

2. This study has been undertaken as part of the 2012 Article IV consultation with Benin.[3,4] It presents a monograph of Benin's financial system, assesses its soundness and vulnerabilities, identifies impediments to financial deepening, evaluates interactions between the financial system's structural features and macroeconomic policy choices and effectiveness, and makes recommendations for financial deepening. Benin is a member of the West African Economic and Monetary Union (WAEMU), and a number of key macroeconomic and financial policies are designed and implemented at the union level. In particular, WAEMU members share a common currency, the *Communauté Financière Africaine franc* (CFAF), which is pegged to the euro. Under this framework, Benin's macroeconomic policy is heavily influenced by fiscal policy. This study focuses on Benin-specific issues, which are however embedded in the above-noted union-wide dimensions, notably those related to financial regulation, interbank and securities markets, banking supervision, and monetary policy. This study builds on the findings and recommendations of 2012 Article IV consultation with the WAEMU.[5] Another forthcoming pilot study, to be prepared in the context of the 2013 Article IV consultation with the WAEMU, will focus on union-wide issues.

3. Benin has a small and segmented financial sector. The sector consists of three categories of entities: (i) commercial banks; (ii) microfinance institutions (MFIs); and (iii) other nonbank financial institutions (insurance companies, pension funds, postal checking services). These categories operate independently to a large extent. The 2011-12 World Economic Forum's report on global competitiveness

[1] IMFb, 2012.

[2] The economic literature recognizes in general that the financial system performs four basic functions essential to economic development and growth: mobilization of savings; allocation of resources; facilitation of transactions and risk management; and provision of corporate control (Barajas, A. and Chami, R., 2012). Another function noted by some authors is information generation for market actors.

[3] This study was initiated in July 2012 during the Article IV discussions in Cotonou, Benin, and was later completed by a staff visit in September to the headquarters of the regional central bank in Dakar, Senegal, the regional banking commission in Abidjan, Côte d'Ivoire, and financial institutions in Cotonou.

[4] This supplement was prepared by Fabien Nsengiyumva and Mario de Zamaróczy, with substantive inputs from Francesco Strobbe (World Bank) and Donat Branger (external expert).

[5] IMFa, 2012.

ranks Benin 98 out of 142 surveyed countries in terms of financial market development, with a score of 4 (out of 7) on availability of financial services.

4. Benin's financial system has gone through considerable changes in recent decades. The banking system collapsed in the late 1980s, following many years of inappropriate economic and financial policies. In 1989, the authorities adopted a rehabilitation plan under which a number banks were liquidated and a legal receiver was appointed to recover bank loans and reimburse depositors. Four new private banks were established during 1988-90 and were since then joined by nine others.[6] Saving and loans associations have developed rapidly since the early 1990s and become important financial institutions for collecting savings and providing credit to individuals and small enterprises. The largest microfinance network (*Fédération des Caisses d'Épargne et de Crédit Agricole Mutuel*, FECECAM) experienced financial and governance problems in the late 1990s. Its rehabilitation program was successfully implemented during the 2000s. Unlicensed microfinance institutions mushroomed over years and a few of them turned into Ponzi schemes during the second half of the 2000s. These schemes attracted official attention after the largest of them collapsed in June 2010.

5. The study incorporates comments received from the authorities. The September 2012 mission prepared an aide-mémoire on its findings and recommendations, which was discussed with the Minister of Finance of Benin and senior officials of the regional central bank (*Banque Centrale des États de l'Afrique de l'Ouest*, BCEAO) in Dakar and Cotonou. Comments on the aide-mémoire from these counterparts were taken into account in this report.

FINANCIAL DEEPENING IN BENIN

Benin's economy has grown at a moderate pace in recent years, despite significant external shocks. To sustain higher growth, financial deepening needs to be strengthened to contribute to the effectiveness of macroeconomic policies. The ambition to make Benin an emerging market economy requires a greater contribution from the financial system in support of economic activity. In particular, implementation of the Poverty Reduction and Growth Strategy for 2011-15 requires a reinforcement of the financial system. Weaknesses in financial intermediation and lack of effective financial markets are hampering the transmission of monetary policy, an important tool for macro-stability.

6. Financial deepening can be defined as the process of increasing depth (financial intermediation and market turnover), breadth (range of markets and instruments), and reach (inclusion) of financial systems.[7] These dimensions are interlinked and their analysis in a country context requires assessing the links between the segments of the financial market, the diversity of financial services and products offered, and the outreach and inclusion capacity of the financial system. Financial inclusion refers to a state in which a majority of working-age adults have effective access to credit, savings, payments, and insurance from formal service providers.[8] It is an important contributor to sustained

[6] One of them became insolvent for several years and was closed in March 2012.

[7] Goyal and others, 2011.

[8] Consultative Group to Assist the Poor (CGAP), 2011.

economic development and growth because it provides those instruments to households and enterprises allowing them to manage the volatility of their income streams, better smooth consumption intertemporally, diversify risks, and insure against unexpected events. In addition, broad access to payment means facilitates the exchange of goods and services, and lowers transaction costs for individuals and firms.

7. **Deepening a financial system is a complex undertaking.** It is a multi-dimensional process requiring policy actions that promote the depth, breadth, and reach of the financial system efficiently and in a consistent way. At the same time, this process requires finding the right balance between development and stability because financial deepening can potentially pose risks to financial stability through the generation and transmission of financial shocks. Financial inclusion is also linked to financial stability, financial integrity, market conduct, and financial education of consumers. Allen and others (2012) find that "financial sectors of most sub-Saharan African (SSA) countries remain significantly underdeveloped by the standards of other developing countries." They also find that "population density appears to be considerably more important for banking sector development in Africa than elsewhere."

8. **So where does Benin stand on financial deepening?** Four sets of data are used to examine the depth, breadth, and inclusiveness of Benin's financial system: the traditional metrics of financial deepening (broad money and credit to the private sector as percent of GDP); data provided by the BCEAO on access to financial services; and two World Bank's databases—*FinStats* and *Findex*.

Depth

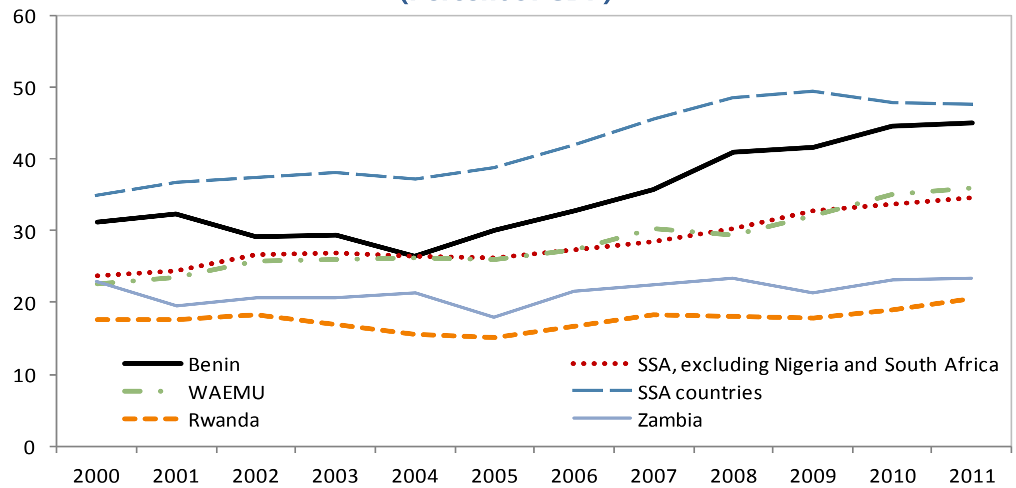
9. **Traditional metrics indicate that Benin's financial system has deepened in recent years**. Figures 1 and 2 show that the ratios of broad money and credit to the non-government sector to GDP have both increased since 2004-05, translating the extent to which Benin has been increasingly making use of bank services. Compared to other (groups of) countries, the two ratios indicate that Benin underperformed SSA countries, but performed better than SSA countries when Nigeria and South Africa are excluded. However, it overperformed two comparable countries (Rwanda and Zambia), and WAEMU countries.[9]

10. **The relatively stronger depth of Benin's financial sector is somewhat confirmed by the benchmarking method underlying the World Bank's FinStats database.** Figures 3a and 3b, generated from that database, indicate that Benin's private credit to GDP ratio outperformed the income group median, and the estimated statistical benchmark, based on its economic and structural characteristics.[10] The ratio of domestic bank deposits to GDP outperformed slightly the income group median, but has come close to its statistical benchmark only recently.

[9] Zambia and Rwanda are the only countries with complete series of data, among countries suggested by the World Bank's FinStats database as peer countries for Benin, based on GDP per capita and population data.

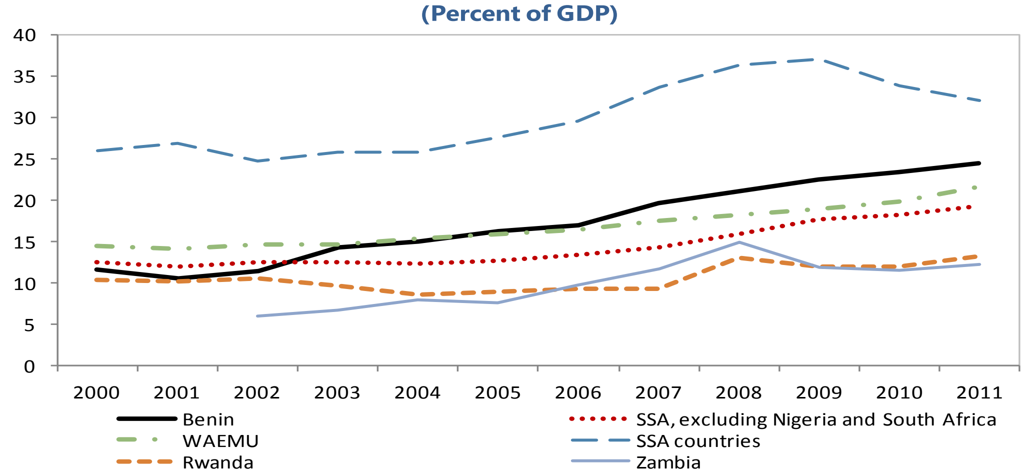
[10] The statistical benchmark is estimated in FinStats by regressing each financial indicator on a set of structural factors, such as GDP per capita, the square of GDP per capita (to account for potential non-linearities), population size, population density, the age-dependency ratio, and country-specific factors, such as the presence of an offshore financial center or the status of being an oil exporter (World Bank, 2012). The number of countries used for the income group benchmarks varies from 25 to 31 for 2001-10.

Figure 1. Sub-Saharan Africa: Broad Money, 2000–11
(Percent of GDP)



Source: IMF, African Department Database.

Figure 2. Sub-Saharan Africa: Credit to Private Sector, 2000–11
(Percent of GDP)



Source: IMF, African Department Database.

Breadth

11. Available data on the breadth of the financial system indicate that Benin underperforms its income group and its statistical benchmark. Figure 4a shows the assets of the three largest banks as a share of assets of all commercial banks to measure bank concentration and to provide an indicator of the competition in the banking system. For this indicator, Benin is not far from its income group median, but it underperforms (i.e., higher concentration) its statistical benchmark. Figure 4b presents the ratio between credit from commercial banks to the government and state-owned enterprises and the GDP. It shows that Benin's performance in this area has deteriorated in recent years, with relative higher shares in 2008-09, compared to the income group median and its statistical benchmark.

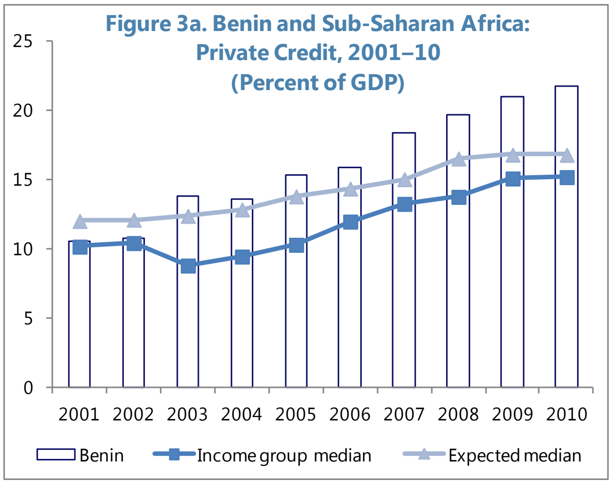


Figure 3a. Benin and Sub-Saharan Africa: Private Credit, 2001–10 (Percent of GDP)

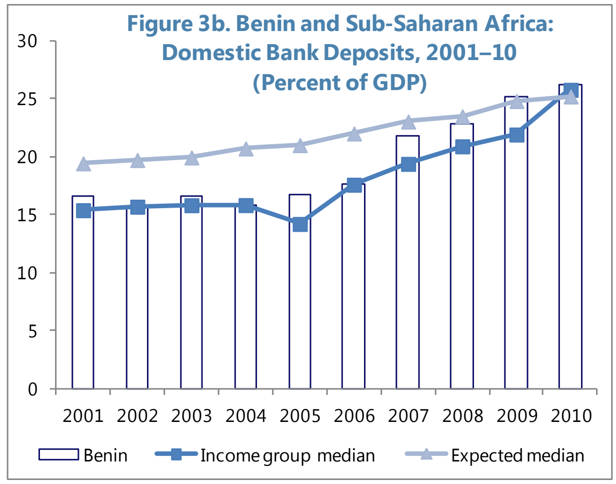


Figure 3b. Benin and Sub-Saharan Africa: Domestic Bank Deposits, 2001–10 (Percent of GDP)

Source: World Bank, FinStats Database.

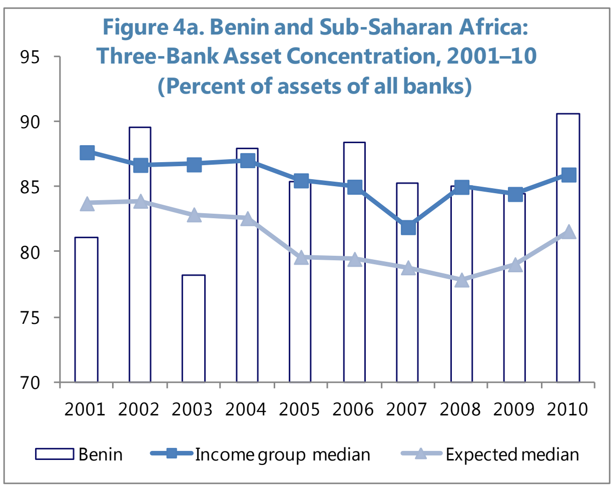


Figure 4a. Benin and Sub-Saharan Africa: Three-Bank Asset Concentration, 2001–10 (Percent of assets of all banks)

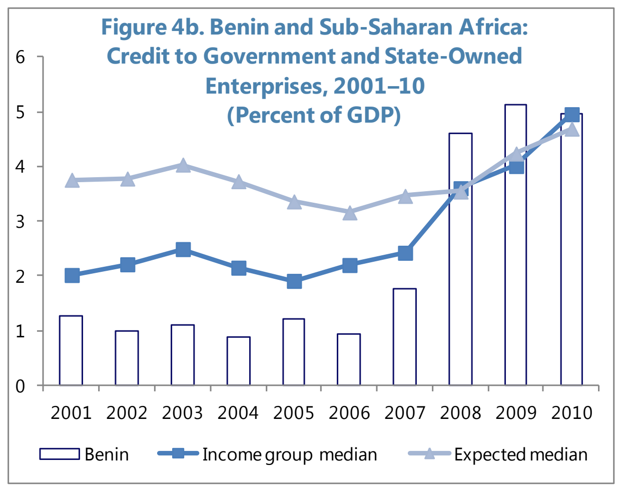


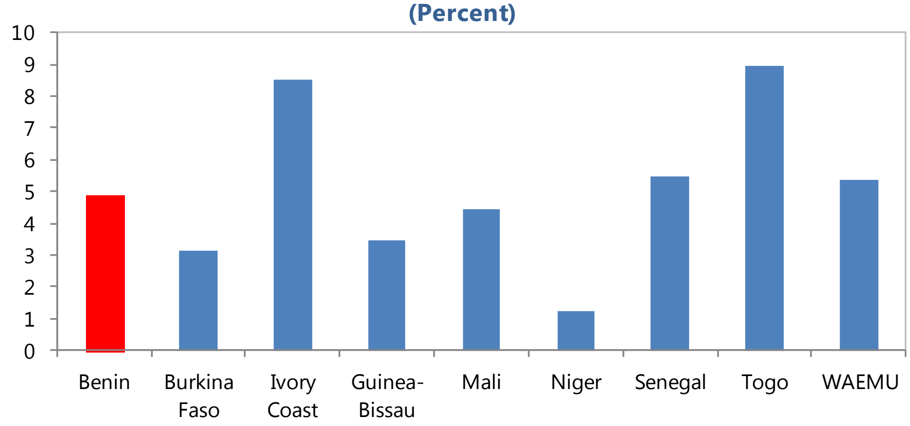
Figure 4b. Benin and Sub-Saharan Africa: Credit to Government and State-Owned Enterprises, 2001–10 (Percent of GDP)

Source: World Bank, FinStats Database.

Inclusiveness

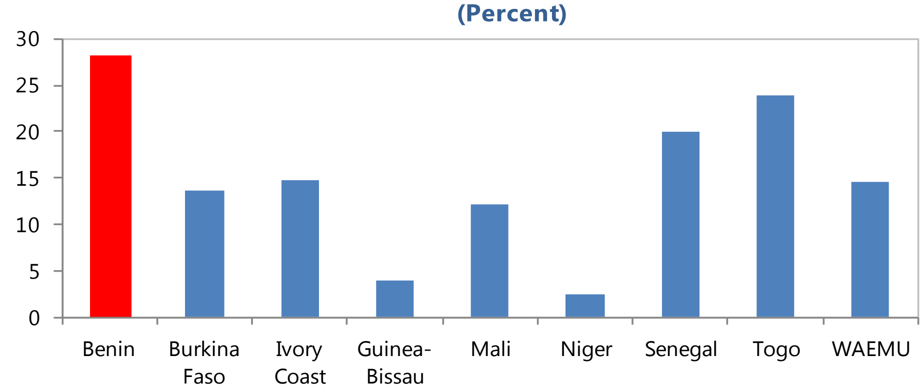
12. **The BCEAO estimates for 2010 show a mixed picture of financial inclusion in Benin.** The number of deposit accounts in commercial banks relative to the active population (5 percent in 2010) confirms the relatively low level of access to banking services (Figure 5). Conversely, after including the number of deposit accounts at MFIs and postal services, Benin becomes the most financially inclusive country in the WAEMU (Figure 6), with about 28 percent of the population having access to financial services. The limited supply of banking services is targeted at the high-income urban population. Low population density, the large size of the informal sector, and limited purchasing power of the population, contribute to low access to banking services.

Figure 5. WAEMU: Adult Population with a Bank Account, 2010
(Percent)



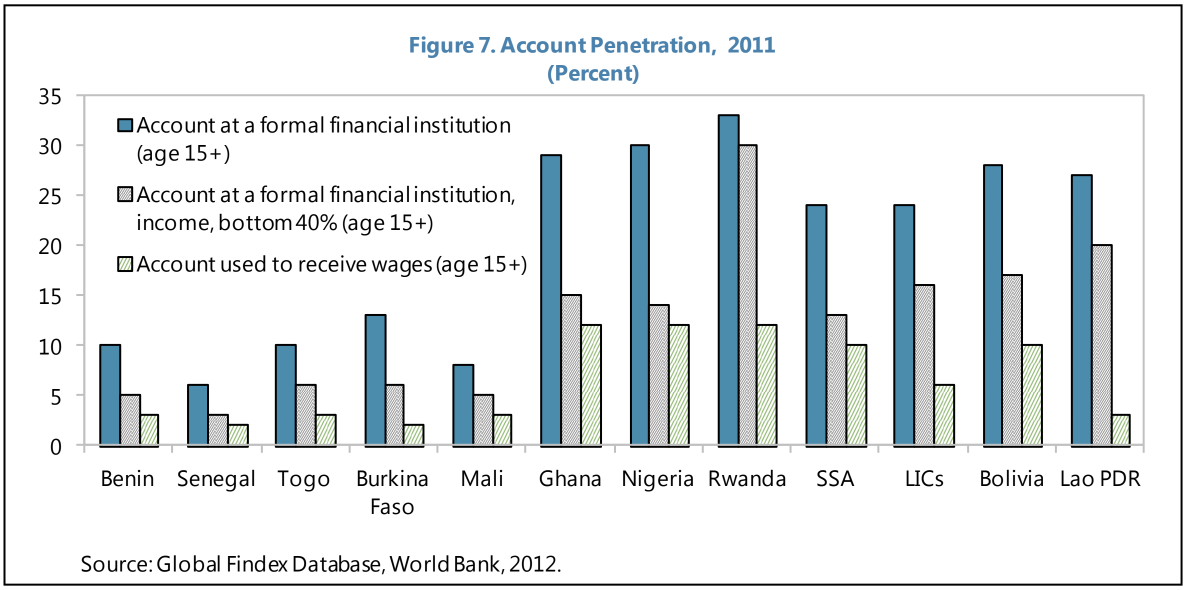
Source: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

Figure 6. WAEMU: Adult Population with an Account at a Formal Financial Institution[1], 2010
(Percent)



Source: Banque Centrale des Etat de l'Afrique de l'Ouest (BCEAO).
[1] In this figure, formal financial institutions include banks, MFIs, and financial postal services

13. **The World Bank database (FINDEX) indicates that the level of financial access in Benin is close to that of other WAEMU countries, but is below that of SSA countries and in comparable countries outside Africa**. The FINDEX database shows that the share of Benin's population with an account at a formal financial institution is close to 10 percent, compared to an average of about 22 percent for SSA countries, 27 percent in the Lao PDR, and 28 percent in Bolivia (Figure 7). The discrepancy between BCEAO's and FINDEX's statistics on Benin occurs because FINDEX considers only "active" accounts, i.e., accounts that have had at least one deposit or one with withdrawal in the past year. Other methodological differences related to nonbank financial institutions are also at play.



14. A comprehensive approach to assessing financial inclusion requires assessing also the quality of financial services. The FINDEX database provides additional insights about usage of financial services and their quality, as measured by consumer ability to benefit from them. Accordingly, only 7 percent of the active population in 2011 had savings in a formal financial institution in the past 12 months, while 16 percent (a much higher level than in other WAEMU countries) had savings at informal financial institutions (Figure 8). In addition, 4 percent borrowed from a formal financial institution in the past 12 months, while 32 percent borrowed from an informal one (Figure 9). The same database indicates that only 3 percent of the active population used bank accounts to receive their wages, and 5 percent of those in the bottom 40 percent of income had an account at a formal institution. These statistics would indicate that Benin has a significant gap to fill in terms of financial inclusion.

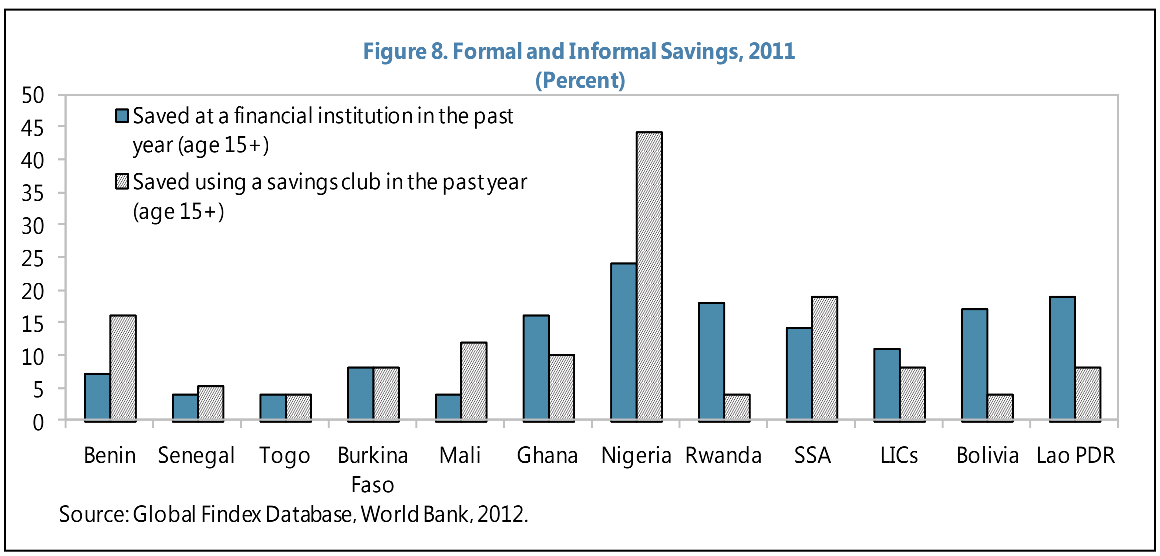
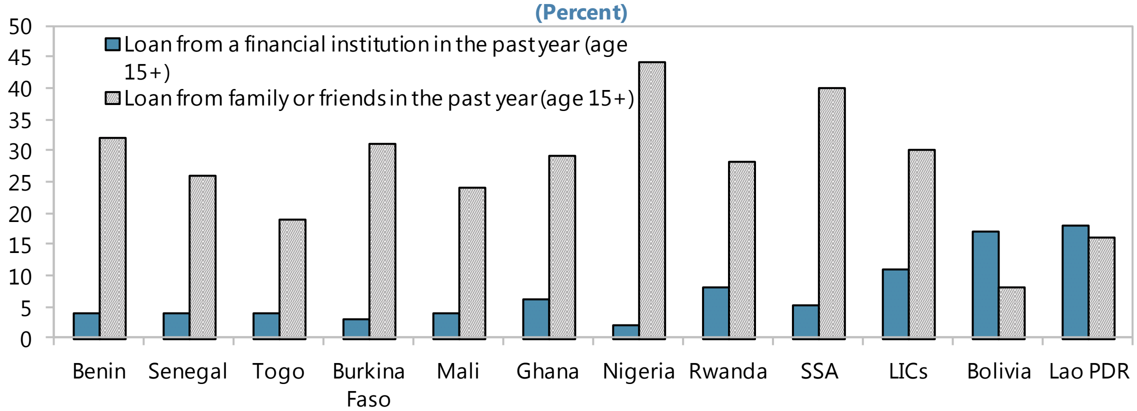


Figure 9. Formal and Informal Borrowing, 2011
(Percent)



Source: Global Findex Database, World Bank, 2012.

Conclusion

15. **In spite of divergences in data from different sources, financial deepening in Benin is deemed relatively shallow in terms of its breadth and inclusiveness.** This is true for the banking sector and—to a lesser extent—for the microfinance sector. For banks, the low penetration rate reflects impediments, such as: (i) the institutional framework that discourages banks from taking risks, considering relatively abundant and lucrative sovereign securities; (ii) difficulties faced by banks in obtaining robust loan guarantees and enforcing them in cases of default; (iii) the small size of the formal sector, and of the manufacturing sector in particular; and (iv) the high cost of establishment in non-urban areas. In the microfinance sector, impediments include (i) lack of suitable management information systems; (ii) lack of long-term funds for use in similar lending; (iii) a degree of public mistrust in the wake of negative experiences; and (iv) the cost of serving remote rural areas.

THE BANKING SECTOR

The next two sections show how banks dominate the financial sector in Benin in the volume of operations, but play a limited role in financial inclusion. Conversely, the microfinance sector, whose overall volume of financial transactions is small, has the potential to play an important role in increasing financial inclusion.

The banks are making only a modest contribution to Benin's economic development in terms of financial services to the public. Development of the banking sector is being held back by the relative shortage of depositors and of solvent borrowers. Obstacles inherent to the business climate, in particular the lack of protection of creditors' rights, tend to reinforce banks' reluctance to take risks. Banks' involvement in financing the economy is also constrained by delays in creating or operationalizing the necessary information databases, such as a credit bureau, a centralized registry of bad debts, and a central registry of corporate balance sheets. Other factors that hamper financial intermediation include the limited scope of mechanisms for guaranteeing collateral and delays in developing electronic financial services.

A. Sector Profile

16. Commercial banks are the main financial players in Benin. At end-2011, the share of banks in the financial sector represented more than 90 percent of deposits from, and loans to, the non-government sector. Twelve banks were operating at end-June 2012, with assets equal to about 50 percent of GDP, half of which was credit to the non-government sector. The sector is dominated by four banks, which accounted for close to two-thirds of deposits and loans at end-May 2012 (Table 1). Two of them are subsidiaries of Pan African banking groups (Bank of Africa Group and Ecobank Transnational Inc.), the other two are subsidiaries of Nigerian and a French banks, respectively. The eight smaller banks are subsidiaries of banks or banking groups based in Nigeria (two banks) and other African countries (six banks). Ten banks are general commercial banks, one bank specializes in mortgage lending, and another, which operates in each WAEMU country, specializes in financing youth's projects. At end-2010, 98 percent of the banks were privately owned and 69 percent foreign owned (Table 2).

Table 1. Benin: Banking System, May 2012

Banks, Ordered by Volume of Loans	Principal Shareholder	Residence of the Principal Shareholder	Deposits (CFAF billions)	Loans
Bank of Africa (BOA)	BOA Group	Morocco	415.3	230.0
Ecobank	Ecobank Transnational	Togo	235.7	182.6
Diamond Bank-Bénin	Diamond Bank	Nigeria	153.7	113.5
Société Générale-Bénin	Société Générale	France	126.4	80.8
Banque Atlantique	Atlantic Financial Group (AFG)	Côte d'Ivoire	71.6	71.0
Orabank	Emerging Partners Capital	Togo	80.5	67.7
BGFI	BGFI Holding	Gabon	48.2	51.4
UBA-Benin	UBA Group	Nigeria	74.2	46.5
BSIC	BSIC Group	Libya	36.1	38.0
BIBE	Union Bank of Nigeria	Nigeria	38.4	30.0
BHB	BOA Group	Morocco	17.9	22.9
BRS	BRS Group	Niger	13.5	5.1
Total			**1,311.50**	**939.5**

Source: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

Table 2. Benin: Repartition of Banks' Capital, 2008–10
(Units as indicated)

	2008	2009	2010
Total capital (CFAF billions)	64.1	91.1	107.9
Share holding (Percent)			
Nationals	41	84	31
Government	6	3	2
Non-government	35	81	29
Non-nationals	59	16	69
Of which: WAEMU	9	7	24

Source: WAEMU Banking Commission, 2010 Annual Report.

17. Although all banks are privately owned, the regional and national public sectors play a significant role as borrowers. At end-June 2012, the government provided about 3.5 percent of the banking system's deposits and held 20 percent of outstanding bank credit. Government securities represented 24 percent of banking system assets, of which 10 percent were securities issued by the government of Benin.

18. The small size of the formal economy and structural impediments to lending hold back banking activities. Bankable borrowers are few and sluggish economic activity provides limited opportunities for lending. This feature is shown in the 65 percent loans-to-deposits ratio over the last two years, and the concentration of bank loans in the tertiary sector (Table 3). Lending activity is constrained by

Table 3. Benin: Sectoral Distribution of Lending, 2005–11
(Percent, unless otherwise indicated)

	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.
Primary sector: agriculture, forestry, fishing	2.0	2.0	1.0	5.0	2.1	1.0	1.1
Secondary sector	21.0	24.0	19.0	15.0	14.2	16.1	17.3
Mining	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Manufacturing	13.0	17.0	12.0	7.3	7.5	7.0	7.6
Electricity, water, and gas	5.0	4.0	3.0	1.7	1.2	1.9	2.3
Construction, public works (BTP)	3.0	3.0	4.0	6.0	5.5	6.8	7.0
Tertiary sector	77.0	74.0	80.0	80.0	83.7	82.9	81.6
Trade, restaurants, and hotels	45.0	44.0	44.0	41.2	37.7	36.6	36.2
Transports and communications	13.0	8.0	9.0	6.8	10.6	12.4	12.2
Insurance, real assets, services to companies	8.0	7.0	5.0	4.7	3.3	3.6	3.0
Other services	11.0	15.0	22.0	27.3	32.1	30.3	30.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum items:							
Total bank credit to non-government sector, (CFAF billion)	375.1	417.3	519.9	635.4	705.5	775.4	858.8
Total bank credit to non-government sector, (percent of GDP)	16.3	17.0	19.7	21.4	22.7	23.9	24.9

Source: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

multiple institutional and structural impediments in the business environment. In particular, creditor rights are jeopardized by lengthy and risky legal proceedings, which reinforce banks' reluctance to take risks by lending to operators who cannot present first-class guarantees. Banks' financing of the economy is also constrained by delays in making existing financial information on borrowers effective, timely, and reliable. A project to set up a credit bureau usable by banks is being prepared by the BCEAO. The current information infrastructure includes a corporate financial database (*Centrale des bilans*) and a centralized registry of bad debts (*Centrale des incidents de paiements*), which is currently not operational because of a lack of agreement with the telecommunications company involved. Bankers find information provided by the corporate financial database in principle useful, but in practice removed from their time-sensitive and reliable credit-assessment needs. Other factors that hamper bank activities include (i) the limited scope of existing mechanisms for guaranteeing loans to small and medium-size enterprises (SMEs) and for refinancing mortgage loans;[11] and (ii) unreliable company financial statements, making running credit risk surveys and developing internal rating systems difficult.

19. Banks are actively involved in WAEMU sovereign borrowing. Government securities are attractive to banks for three main reasons: (i) their relatively high yield (around 6 to 7 percent a year, versus an average union-wide inflation rate of some 3.8 percent), which is tax exempt; (ii) the ease with which these securities can be refinanced at a low rate (slightly above 3 percent) at the BCEAO; and (iii) "zero weighting" of WAEMU sovereign risk in the computation of bank solvency, thus requiring no capital provision and providing a high leverage effect on profitability. As a result, most banks, in particular the larger ones, which have structural excess liquidity, tend to give preference to buying sovereign securities to lending to the private sector. In some of the largest banks, the profit derived from sovereign securities almost measures up to the margin generated by loans to the non-government sector. It is mostly the small banks, particularly those that do not meet prudential requirements to access the BCEAO's refinancing window, that show an interest in lending to customers—but they look for yields higher than what is offered by government securities.

20. Competition between banks has not yet affected the level of commission and fees charged on banking services. Lack of transparency and noncompliance with adequately publishing commissions and fees contribute to keeping banking services expensive. The World Bank's FinStats database indicates that non-interest income to total income ratio reached an average of about 45 percent in Benin over 2001-10, close to the regional and same income-group countries' averages. The ratio has been on an increasing trend over the last five years, rising from 42 to 53 percent. This high level of commission and fees hinders financial inclusiveness and protects the low productivity of the banking sector.

21. Electronic banking has hardly started, but is being contemplated as a possible tool to expand access to bank services. Beninese banks offering debit cards are members of the regional network set up by WAEMU banks, which provides widespread money withdrawal services within Benin and the union. Mobile banking and electronic banking ("e-banking") are still in their infancy. Most banks only offer electronic access to account balances and recent operations, and provide various alerts. The larger banks are considering leveraging their experience in e-banking in other SSA countries to offer payment and transfer services in Benin.[12]

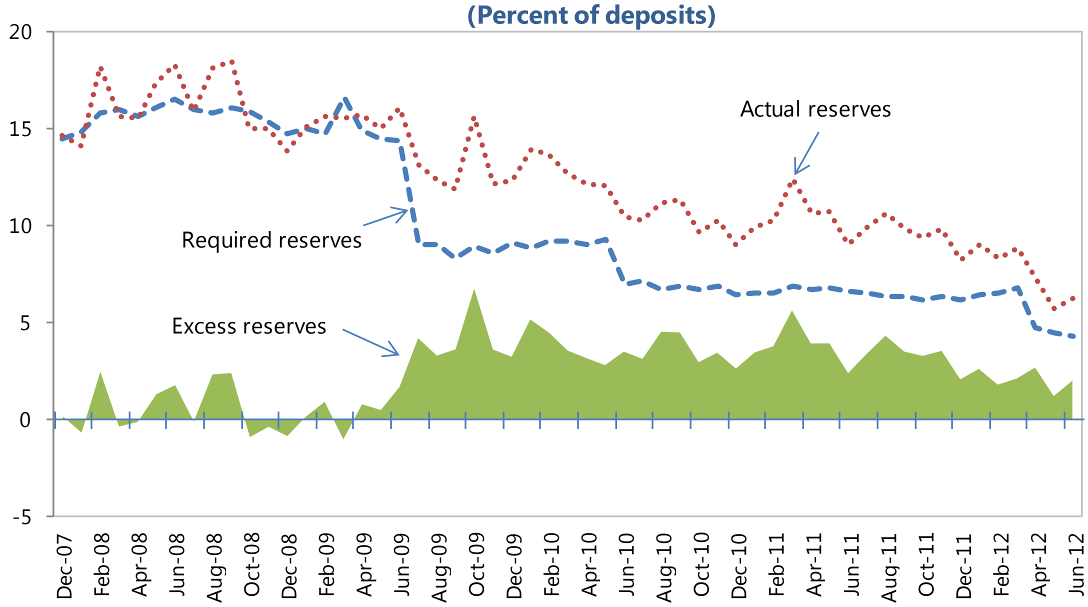
[11] One mechanism for guaranteeing loans that is operating in Benin is funded by an international organization specialized in loan guarantees: the African Guarantee and Cooperation Fund (*Fonds Africain de Garantie et de Coopération Économique*, FAGACE). At end-2010, the fund had 34 Beninese projects in its portfolio, with guarantees amounting to about CFAF 36 billion. A regional financial institution for refinancing mortgage loans (CRRH-UÉMOA) was launched in 2010. Its first refinancing operation became effective in August 2012.

[12] Allen and others, 2012, page 4, find "that the minimum viable banking sector scale is best achieved in major cities, and that technological advances, such as mobile telephone payments, could be one way to facilitate African financial development, especially outside metropolitan areas." Kenya's experience confirms this finding.

B. The Interbank Market

22. The interbank market is largely inoperative in spite of the BCEAO's efforts at the regional level to provide support. At present, interbank operations are sporadic and based on bilateral relationships, within a group, or with a counterpart deemed reliable based on subjective criteria. The current flat interest rate curve and absence of volatility limit the scope of interest-risk-exposure management and provide no incentive for speculative arbitrage. The overall excess liquidity of banks (Figure 10) and the large portfolios of sovereign securities, that are relatively easy to refinance at the BCEAO at a cost lower than the one that would prevail on the interbank market, make it exceptional for banks to borrow from each other. Banks are reluctant to lend to each other because they do not have access to recent and reliable financial information, necessary to evaluate counterpart risks. Pressure by the authorities on banks to improve financial information dissemination seems low, maybe because of the fear of bank-runs that could be triggered by public awareness of the actual situation of some ailing banks. This situation underscores the urgent need for effective bank supervision, prompt remedial action for troubled banks, and rapid bank resolution mechanisms, which are prerequisites for building confidence between banks and promoting an effective interbank market.

Figure 10. Benin: Excess Bank Reserves, December 2007–June 2012
(Percent of deposits)



Source: Banque Centrale des Etats de l'Aqfrique de l'Ouest (BCEAO).

23. The BCEAO is currently implementing infrastructure reforms for the regional interbank market. It set up an automated interbank clearing system (SICA-WAEMU) in 2008, and established a new certification mechanism for the real-time payment and settlement system (STAR-WAEMU) in 2009. In parallel, it launched an information campaign for the banking community on the benefits of operating on the interbank market. Standardizing repurchase ("repo") contracts among banks is also under consideration, after significant legal work has been completed. Substantial progress also has been reported in developing a technical platform, which is being tested (IMFa, 2012, ¶19).

C. Macro-Financial Linkages

24. Important macro-financial linkages exist between the cotton and the banking sectors. The cotton sector has been the foundation of rural and agro-industrial economies. Cotton has historically played a dominant role in Beninese exports and represented a large fraction of GDP. Although its importance has declined significantly, it continues to employ a large part of the rural population—it is a source of direct income for 300,000 people (5 percent of the rural work force) and of indirect income for many more. Cotton is mostly produced on small family plots, and is grown by farmers with little to no access to the financial system. Nonetheless, the banking sector is heavily involved in cotton production, because banks provide seasonal credit (*crédit de campagne*). Until this year, banks typically provided credit to ginners. Separately, but financed by cotton export sales, ginners made loans at the beginning of the planting season to farmers to purchase seed, fertilizer, and other items. The loans are repaid when farmers deliver their harvest to the ginners. In the current campaign, the government has taken on the organization of the cotton campaign and has contracted a large syndicated loan (about 10 percent of 2011 credit to the private sector) from eight banks at commercial rates. Banks' financial performance is thus closely linked to the performance of the cotton sector. Microfinance institutions are also involved in making loans to farmers. Box 3 and Appendix II of the companion staff report analyze the cotton sector in detail.

25. The interrelations between Nigeria and Benin are critically important for Benin. Trade and financial relations between the two countries proceed through the following channels:

- *Fuel prices and subsidies.* About 85 percent of the gasoline sold in Benin is smuggled from Nigeria; trade estimates suggest that about half of imports going through the Port of Cotonou are destined for Nigeria.

- *Remittances.* Nigeria is an important destination for emigrants from Benin and an important source of remittances, although data are not available.

- *Banking relations.* Three Nigerian banks operate in Benin. They hold about 20 percent of total deposits and provide a similar share of total credit. Banks in Benin derive significant fees from CFA franc/naira exchange operations, which fuel a largely cash-based informal trade and facilitate inflows of remittances.

A change in trade or economic policies in Nigeria would affect the volume and the composition of trade and be a source of financial stress to the Beninese banking system.

THE MICROFINANCE SECTOR

The microfinance sector in Benin has grown exponentially over the last decade. The sector plays a limited role in financial intermediation, given its small dimensions and funding base. It has, however, a significant potential for channeling increased financial resources to micro and small enterprises (MSEs) that currently have almost no access to formal financial services.

A. Sector Profile

26. The microfinance sector in Benin plays both a systemic and a strategic role for economic growth. The exact size of the sector is unknown. A survey conducted in 2011 inventoried 721 MFIs operating in the country. Of these, only 226 are currently licensed. The authorities estimate, however, that the licensed institutions represent about 90 percent of the whole sector in terms of financial volume. Although the volume of deposits and loans is modest, compared to that of banks, the sector has a systemic importance because of the number of people using it. It also plays a strategic role in channeling financial resources to sectors of the economy that are underserved by banks and in providing financial services to the underserved rural population. At end-2011, licensed MFIs served more than 1.5 million customers, compared to an active population of some 4.5 million. They held about 5 percent of the deposits and provided close to 9 percent of the loans of the whole financial system (Tables 4 and 5). The sector is highly concentrated, because a small number of licensed MFIs account for the vast majority of all loans of the sector. The biggest MFI has close to one half of the sector's total number of clients. The core activity of MFIs is microcredit, their loans ranging from CFAF 20,000 to CFAF 5 million (about US$40 to US$10,000).

Table 4. Benin: Selected Indicators for Microfinance Institutions, 2008–12
(Units as indicated)

	2008	2009	2010	2011	Jun-12
Numer of clients (persons)	1,129,016	1,406,683	1,474,038	1,579,322	1,600,556
Deposit accounts (units)	1,027,543	1,285,841	1,508,037	1,476,453	1,472,971
Deposits (CFAF billions)	57.6	53.3	57.7	62.7	64.7
Outstanding loans (CFAF billions)	72.0	73.0	83.4	91.1	84.1
Non performing loans (CFAF billions)	3.2	3.0	4.7	6.6	6.8
Non performing total loans (percent)	4.4	4.0	5.6	7.2	8.1
Capital (percent)	11.6	14.1	21.0	n.a.	n.a.
Total assests (percent)	103.9	126.1	132.2	n.a.	n.a.
Net earnings (percent)	-1.0	0.6	1.6	n.a.	n.a.

Source: Benin Microfinance Supervision Unit, Ministry of Finance and Economy.

Table 5. Benin: Commercial Banks and Microfinance Institutions—Selected Indicators, 2008–11
(CFAF billions, unless otherwise indicated)

	Commercial banks		Microfinance institutions	
	2008	2011	2008	2011
Deposits	934	1,285.7	57.6	62.7
Outstanding loans	676.2	957.9	72	91.1
Nonperforming loans to outstanding loans (percent)	18.7	15.6	4.4	7.2
Provisioning rate (PERCENT)	55	61		
Memorandum item:				
Number of institutions (units)	12	13	211	226

Sources: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); Benin Ministry of Finance and Economy.

27. Two main business models exist for MFIs. The first category involves "savings and credit institutions" and the second, "direct credit institutions."[13] The two largest MFIs belong each to one of these categories. MFIs belonging to the first category are more likely to have a substantial part of their loan portfolio dedicated to group lending, while MFIs belonging to the second category tend to privilege individual lending and provide, in general, higher loan amounts. In both cases, loan maturity is usually one year, and interest rates depend on the specific circumstances, varying from 1 percent to 2 percent a month (on the remaining capital). Almost all loans are linked to income-generating activities and only a small percentage of loans are for consumption. It is noteworthy that institutions of the second type are now aggressively campaigning for savings mobilization, because they have realized that this can be an important source of additional funding. This converges the two main business models and fosters a beneficial competition among MFIs for attracting deposits, especially in urban areas where their presence is stronger.[14]

28. Data for the microfinance sector indicate robust reach but also vulnerabilities. The number of deposit accounts at end-2010 was 1,508,037 for a total amount of deposits of CFAF 57.7 billion and loans of CFAF 83.5 billion. Nonperforming loans represented 7.2 percent of total loans. Prudential ratios and performance indicators at end-2010 show that the sector as whole was in compliance with all but one regulatory norms (Table 6). These indicators hide, however, diversities among the MFIs. Only 39 percent of licensed MFIs were respecting the minimum capital/assets ratio and only 58 percent were in compliance with the minimum liquidity ratio. These numbers highlight the vulnerability of the sector and the need to strengthen supervision.

Table 6. Benin: Compliance with Prudential Norms by Microfinance Institutions, 2008-10 [1]
(Percent)

	2008	2009	2010
1. Limit on risk exposure (maximum 200%)	116.8	125.6	105.6
2. Coverage of medium and long term liablities by stable resources (minimum 100%)	83.2	89.2	97.9
3. Limit on connected lending (maximum 10%)	2.0	1.7	3.9
4. Limit on exposure to a single borrower (maximum 10%)	0.5	0.5	2.6
5. Liquidity ratio (minimum 100%)	96.2	93.6	120.1
6. Limit on operations other than loans and collection of deposits (maximum 5%)	0.3	0.2	0.6
7. Capitalization (minimum 15%)	11.7	11.8	17.2
8. Limit on acquisition of holdings (maximum 25%)	NA	NA	1.5

Source: Microfinance Supervision Unit, Ministry of Finance and Economy.

[1] Data based on financial statements filed by licenced microfinance institutions.

[13] Savings and credit institutions collect deposits and provide loans. Direct credit institutions do not collect deposits but, lend resources borrowed from banks or obtained from the government and donors.

[14] Based on data for over 70 percent of total deposits in the sector, term-deposits are currently remunerated at an initial 3 percent over 6 months, and then gradually increasing, according to the amount deposited.

B. Constraints Facing the Sector

29. After a phase of "promotion" that has significantly expanded the reach of the microfinance sector, it is now time to focus on its consolidation and strategic reorientation. It is important to look at the sector not only as a social development tool for the poor, but also as a development tool that could play a crucial role in supporting productive sectors of the economy (i.e., MSEs). The following sections focus on impediments to financial deepening, including (i) data and information constraints; (ii) structural constraints; and (iii) institutional and regulatory constraints. If these constraints are removed, the sector could contribute significantly to economic growth.

Data and information constraints

30. Consolidation and reorientation of the microfinance sector necessitate robust data to formulate a strategy and quantify objectives. This would also help the private sector to adapt the design and delivery of financial services. Unfortunately, the availability of data on financial inclusion (e.g., access and usage of financial services; rural versus urban areas; credit to households versus MSEs) and on other key statistics for the sector (e.g., market shares, transaction volumes, number of non-licensed MFIs) is sporadic and sometimes inconsistent. Institutions involved in data collection fail to provide timely and accurate data. Although the information provided by the 2011 survey on MFIs is useful (as it is rare to know the number and location of institutions providing financial services in the informal economy), it is insufficient, because the number of customers served and the volumes managed by these informal MFIs are relatively unknown.

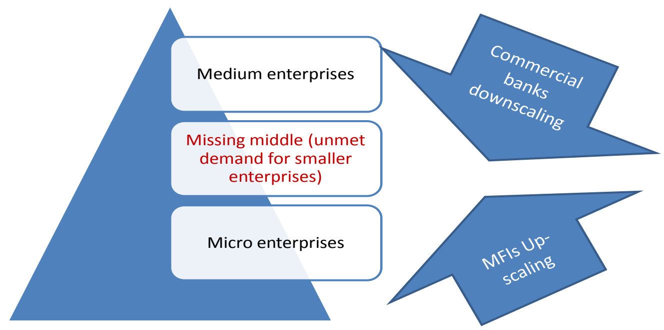
Structural constraints

31. The microfinance sector lacks a "financing culture" for micro, small, and medium-size enterprises (MSMEs), which constitute the bulk of the productive sector in terms of the number of enterprises. There is no commonly agreed on definition distinguishing categories within MSMEs in Benin, nor a clear strategy on how to engage MSMEs financially. The 2012 World Economic Forum's report on global competitiveness shows that "lack of access to finance" is indicated by enterprises as the second most important obstacle to doing business in Benin, after corruption. The whole "meso-finance" segment is financially uncovered in Benin,[15] giving rise to the "missing middle" where commercial banks do not have incentives to "downscale" their operations, and most MFIs do not have the technical and financial capacity to "upscale" theirs (Figure 11).[16]

[15] "Meso-Finance" is the term often used to describe the financial needs of the "missing middle," which is represented by the financing gap affecting those MSEs whose financing needs are above those offered by the traditional microfinance providers, but below the level of services offered by commercial banks (Sanders, T. and Wegener C., 2006).

[16] Allen and others, 2012, page 6, note that generally "most established commercial banks view the sectors targeted by MFIs as "unbankable."

Figure 11. Benin: The Missing Middle in Access to Finance



32. **As in many other LICs, the lack of long-term resources is restraining the microfinance sector in Benin**. The sector's main sources of financing come from savings mobilization (70 percent of total sector-wide resources), financial support from the government (20 percent), and loans from commercial banks (10 percent). Savings mobilization is necessary, but it does not provide sufficient resources to finance investments in the medium-to-long term. Public support, provided mainly through the national fund for microcredit (NFM, *Fonds National de Microcrédit*), could represent an important source of medium-term resources, but most of the funds provided through this channel are directed to very low-income households at highly subsidized rates and not to productive investment (Box 1). The limited links of MFIs with the banking sector—banks have few incentives to engage the formal microfinance sector because of the perceived risks—hamper the efficacy of monetary policy transmission, because monetary impulses do not reach the large client base served by MFIs.

Box 1. Benin: National Fund for Microcredit

The National Fund for Microcredit (NFM) was established in 2006 and began operating in February 2007. It is a public entity under the Ministry of Microfinance, Youth Employment, and Women. NFM's objective is to strengthen the financial and operational capacities of MFIs to provide financial services to the population, farmers, and entrepreneurs. The NFM essentially:

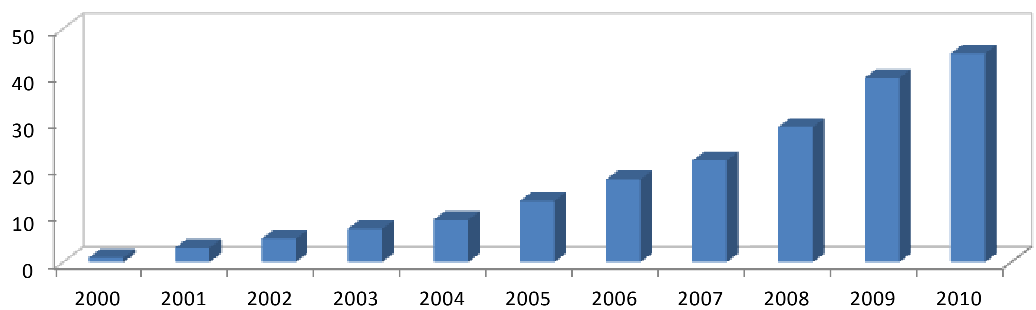
- Provides microcredit to the poorest households of the population;
- Finances agricultural activities in rural areas;
- Supports MFIs through refinancing; and
- Provides institutional support and capacity building to MFIs.

The FNM's resources come mainly from government contributions; external donors' and development partners' contributions in the form of refinancing and lines of credit; and other grants and subsidies.

Credit to the poorest households represents the bulk of NFM's activities. It absorbed over 90 percent of total NFM financing between 2007 and 2011, and reached over 800.000 beneficiaries. This activity has a repayment record of 84 percent.

33. Lack of adequate incentives for rural finance. Benin is a predominantly rural economy. Agricultural finance should thus play a key role in promoting economic growth, but at present even MFIs have little incentive to reach out to underserved rural areas. Yet, MFIs have the comparative advantage of operating proximity-type financing through instruments varying from seasonal loans tailored to agricultural cycles, to investments in mobile money technologies. These technologies in fact flourish in many LICs, and in particular in Southern and Eastern Africa. They allow people in remote rural areas to transfer, cash-in, and cash-out money. The potential for Benin to exploit mobile technologies is high because of the large number of mobile phones in use (Figure 12). A couple of commercial banks are currently piloting such services, but only for their clients. A few large MFIs have also started to invest in this technological new frontier.[17]

Figure 12. Benin: Mobile Phone Subscriptions, 2000–10
(Percent of population)



Source: Beninese authorities.

34. Lack of adequate deposit protection. Although financial amounts processed by MFIs are a small proportion of those processed by commercial banks, their relative importance for low-income customers is substantial and requires adequate protection. The systemic importance of over 1.5 million depositors requires adequate measures to preserve the stability of the microfinance system. A project setting up a deposit guarantee fund (*fonds de garantie des dépôts*) is currently under discussion at the union level. Its implementation should be preceded by enhanced supervision.

35. Lack of adequate financial education. Financial education is important for clients of any financial institution, because it contributes to consumer protection. Financial education in Benin needs to be scaled up, and this is especially important for low-income clients whose exposure to fraudulent financial practices can have a significant impact on income. The government has an important role in supporting MFIs in conducting financial education campaigns to promote transparency and boost public confidence in financial services and products.

[17] In Kenya, the launching of a nation-wide mobile phone plan was financially helped by an external donor. Elsewhere, mobile phone companies were able to do the same with their own resources and were able to recoup the initial fixed cost. In Benin, the largest MFI (FECECAM) offers instant money transfer service by mobile phone.

36. Excessive market concentration and lack of competition. As noted earlier, the microfinance sector is highly concentrated. Most MFIs operate in urban centers, leaving most rural areas either financially uncovered or under the monopoly of a single MFI.[18] Promoting competition in rural areas by offering incentives to institutions to open a branch in underserved areas could be an effective way of serving two purposes: lowering the cost of services to final beneficiaries and promoting economic activity in rural zones.

Institutional and regulatory constraints

37. Limitation on activities other than savings and loans. The prudential regulations applicable to MFIs, defined by the BCEAO at the union level and promulgated as a national law in Benin by the president in March 2012, constitute a major step forward in strengthening supervision and the stability of the microfinance sector. However, the law imposes a 5 percent limit on operations other than deposit collection and loan extension, which significantly curtails options for MFIs to engage in new services, such as microinsurance and money transfer. While there is merit in keeping MFIs focused on savings and loans, excessive concentration on these two activities unnecessarily prevents the MFIs from venturing into new areas where they have a comparative advantage and can make a contribution to economic activity. Providing microinsurance and money transfer services is usually a profitable "niche" activity for MFIs, whose earnings allow risk diversification, reach critical mass, and spread overhead costs.

38. Weakness of the business environment and of the judiciary. Shortcomings in the business environment limit financial intermediation. The World Bank's Doing Business Indicators suggests that the overall cost of doing business in Benin is higher than the corresponding average cost in SSA. The legal and judicial environment is a factor of significant uncertainty for banks and MFIs willing to provide loans to the private sector. The lack of clarity on property rights, lack of land titles, and the uncertain status of certificates of land occupation sometimes used in lieu of land titles, all have a negative impact on safe collaterals, and hence makes financial institutions hesitant to provide credit, unless the borrower can provide exceptional guarantees.

39. Lack of adequate management information systems. Most MFIs' information systems are rudimentary and preclude timely transmission of data between headquarters and field offices. The new regulatory and supervisory requirements imposed by the microfinance law imply that MFIs should be able to collect accurate and timely information for their own management and internal control purposes, as well as for transmission to the supervisory authorities. Investment in upgrading information systems is a necessity. Adequate information systems would in turn facilitate the enhancement of the union-wide borrower risk registry (*Centrale des risques*). In addition to this project, which may take some time to materialize, Benin has implemented a credit registry at the national level, managed by a private company, with participation from most licensed MFIs. The registry shares information on microfinance borrowers (Box 2).

[18] No recent data could be obtained on the checking services of the Postal Office (*Centre de chèques postaux*). Given their capillary distribution over the territory, they have good access to the rural population. They could be energized to reach out and provide enhanced financial services. Currently, these services are not considered as financial ones and therefore are not regulated by the financial sector supervisory authorities.

Box 2. Benin: Credit Registry

The credit registry for the exchange of risk information (*Centrale d'échange d'informations sur le risque crédit des institutions financières*), was established in January 2012 by ALAFIA, the professional association of MFIs, with five other members. The registry aims at increasing access of MSMEs to credit, securitizing MFIs' portfolios, and developing the financial sector in Benin.

The registry is managed by a private Beninese company, headquartered in Cotonou. Its services are offered to MFIs, banks, and other financial institutions, but are currently used only by participating MFIs. The services include credit reporting, history of loan repayment, and history of residential addresses.

40. Lack of adequate professional skills in MFIs. MFIs provide financial services, which require adequate professional skills. This means that MFI personnel need to have basic banking knowledge, augmented by specific skills tuned to the peculiarities of microfinance operations. The professional association of MFIs (ALAFIA) can play an important role by offering specialized training and classes. It is also important that MFI personnel understand the new legislation and the related requirements.

41. Limited diversity in financial services and products. Benin's microfinance services, as in most WAEMU countries, are insufficiently diversified to satisfy the financing needs of the economy. Only the largest MFIs are able to offer a wider range of saving products (e.g., current and savings accounts and term deposits at different maturities) and of loan products (e.g., specialized loans to government employees, military personnel, women, students). Other basic products, like micro-insurance and mobile money transfer, are not common. More sophisticated financial products, such as leasing, factoring, venture capital, and investment capital (which could provide alternatives to bank financing) are almost inexistent.

OTHER FINANCIAL INSTITUTIONS

Benin's other financial institutions are few and have a marginal role in financial deepening.

42. Benin has two pension funds. The pension system is composed of two entities: one for permanent civil servants (*Fonds national de retraite du Bénin*, FNRB) and a second one for private sector employees and contractual civil servants (*Caisse nationale de sécurité sociale*, CNSS).

- The FNRB is a public entity whose financial operations are embedded in the government's budget. It has limited power in managing and allocating its financial resources. A reform to strengthen the sustainability of the fund is under preparation, with involvement of all stakeholders.

- The CNSS is an autonomous entity with a management board composed of nine representatives of employers, employees, and the government (three for each constituency). Its resources essentially come from employees' and employers' contributions, and from investment in real estate and financial assets. Management decisions to allocate assets is supervised by a board. CNSS's net operating results have been positive since 2007, increasing from CFAF 17 billion in 2007 to CFAF 47 billion in 2011. These positive results are mostly due to the raising of the retirement age in 2007 from 55 to 60 years. Net results are expected to start declining in 2013, when the bulk of those who were 55 in 2007 will be retiring. According to CNSS's by-laws, an actuarial evaluation has to be updated every five years. The main constraints currently faced by the CNSS are: (i) finishing the review of the regulatory framework; (ii) upgrading the information system; (iii) strengthening human resources trough training and new recruitment; and (iv) granting some flexibility to the management team in the allocation of the investment portfolio. As a provider of financial services for long-term savings and risk sharing, a more flexible allocation of CNSS's portfolio would contribute to financial market deepening.

43. **The insurance industry is small and dominated by non-life insurers.** Total turnover of the industry was about CFAF 34 billion (1 percent of GDP) in 2010. There are six non-life insurers and six life insurers in Benin. All insurers, except three, belong to large international financial groups.[19] Non-life insurers generate a large part of the industry's turnover, but their market share declined from 78 percent in 2006 to 71 percent in 2010. Both life and non-life insurers have been profitable over the last five years. Industry investment appears to be conservative, thus limiting insurers' exposure to market risk. In 2010, the industry's assets were composed of bank deposits (36 percent); African Conference of Insurance Markets (ACIM) members' bonds (31 percent);[20] real assets (16 percent); shares in other companies (12.5 percent); and other assets (4.5 percent). The share of Beninese government bonds (about 5 percent) held by Beninese insurers is far lower than similar assets held by Beninese banks. The insurance industry in Benin is governed by ACIM's regulatory framework. The supervision is jointly performed by the Ministry of Economy and Finance (MOFE) and an ACIM commission.

44. **The insurance industry is shallow.** The insurance penetration rate (number of insured people to total population) for life insurance increased from 0.2 percent in 2006 to 0.3 percent in 2010. For non-life insurance, the rate was about 0.7 percent during the same period. To improve penetration, insurers have recommended to require mandatory insurance for two-wheel vehicles, residential buildings, and execution of public contracts.

FINANCIAL SUPERVISION

Financial supervision, divided between the union and Benin, is complex and needs strengthening.

A. Bank Supervision

45. **Regulatory and supervisory functions are vested in the BCEAO and WAEMU's banking commission (BC-WAEMU)**. License attribution and disciplinary decisions made by BC-WAEMU are announced to concerned banks by decrees of the minister of finance of the member country where the bank is located. The minister may appeal decisions of BC-WAEMU to the union's Council of Ministers.

[19] Beninese nationals hold majority shares in the other three insurance companies.

[20] Beninese insurers are authorized to buy bonds issued by ACIM member countries (the 14 countries of the WAEMU and the Central African Economic and Monetary Union (*Communauté Économique et Monétaire de l'Afrique Centrale*, CEMAC). Details on the issuers of ACIM members' bonds held by Beninese insurers are not available.

46. Developments in Benin's banking sector call for stronger bank resolution mechanisms. Two banks have been insolvent for years without being resolved and have embarked on aggressive deposit collection to cover their operating losses. For one of them, a provisional administrator has been appointed with a mandate to restructure the bank and approach potential investors. The second bank has recorded losses ever since it has started operations. Its recapitalization by the regional, intergovernmental development bank (*Banque Ouest-Africaine de Développement*, BOAD) is under consideration and a restructuring plan is being devised. A third bank, which had been insolvent for several years, was closed in March 2012 and is being liquidated. Long delays in resolving banks with negative equity damage the reputation of the whole banking system and the credibility of banking supervision.

47. Consolidated supervision within WAEMU needs to be developed. Three banks in Benin are controlled by holding companies incorporated in other WAEMU countries and one bank operates as a branch of a bank incorporated in another union country and that has benefited from the "single union license" procedure. The BC-WAEMU holds supervisory power over banks and branches of holding companies operating in a WAEMU country. However, no prudential framework applies to the holding companies themselves, and the BC-WAEMU does not deliver licenses to these holding companies. Its supervisory power is exercised through receiving and analyzing quarterly reports of each bank and holding company, followed by on-site inspections if deemed necessary.

48. Cross-border information sharing and supervision remains generally limited, although eight banks are operating in Benin as subsidiaries of foreign financial holding companies headquartered outside the WAEMU. International cooperation between home and host authorities is currently vested in the BC-WAEMU. The current cross-border cooperation operates mostly in cases where there is a need to get a non-objection letter of the home country when a foreign bank applies for a license. No periodic common analysis is run by supervisory entities on the strategies, risk exposures, and regulatory requirements of involved banking groups.

B. Prudential Norms and Bank Soundness Indicators

49. There has been a gradual improvement in compliance with prudential norms since 2009 (Table 7). Nevertheless, there is also significant forebearance. Two banks (holding about 4 percent of bank deposits) are noncompliant with virtually all prudential norms and have negative capital. Two other banks face difficulty in complying with the liquidity and the asset transformation norms and have been benefiting from a transitory derogation to allow them to restore their compliance. All banks have been systematically missing the structure-of-portfolio norm, which requires that 60 percent of total loans be extended to borrowers rated by the BCEAO as eligible to refinancing.

Table 7. Benin: Number of Banks in Violation of Prudential Ratios, 2009–12

	2009	2010				2011				2012	
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June
Minimum capital (norm: CFAF 5 billion)	3	3	3	3	2	2	2	2	2	1	1
Tier 1 capital (norm: CFAF 5 billion)	5	5	5	5	5	4	4	4	3	2	2
Capital to risk-weighted assets (minimum 8 %) [1]	4	4	4	4	3	3	4	3	3	2	2
Liquidity coefficient [2] (minimum 75%)	4	5	3	5	4	5	3	4	5	5	4
Structure of portfolio [3] (minimum 60%)	12	12	12	13	13	13	13	13	13	12	12
Maturity transformation [4] (minimum 75%)	4	6	7	6	5	5	6	6	5	5	4
Limit on connected lending [5] (maximum 20%)	0	0	0	0	1	1	1	1	1	1	1
Limit on global exposure [6] (8 times Tier 1 capital)	4	4	4	5	3	3	3	3	3	2	2
Limit on exposure to a single borrower [7] (75 percent of Tier 1 capital)	4	5	4	4	5	6	4	4	4	2	2
Memorandum item:											
Number of banks operating in Benin	12	12	12	13	13	13	13	13	13	12	12

Source: Banque Centrale des Etats de l'Afrique de L'Ouest (BCEAO).

[1] Risks are calculated on the basis of predermined regulatory weights for each category of assets. The amount of provisioning of nonperforming loans is deducted to get net risks.
[2] Ratio of assets that can be easily mobized in the short term (over three months) over liablities coming due in the short term and liabilities due in the short run (over three months).
[3] Ratio of outstanding loans that are rated by the BCEAO on total gross credit of the bank.
[4] Ratio of stable financial resources (Tier 1 capital, deposits and other financial resources with maturity of more than two years) on total medium- and long -terms uses (over two years).
[5] Loans provided by a bank to people particpating in the management of the bank.
[6] Total volume of risky assets for an individual bank.
[7] Risks on a single individual or signature, including on and off-balance sheet risks.

50. Compliance with the regulatory prudential norms raises a number of observations:

- *Long-term resources*. Banks' transformation capacity is hindered by the scarcity of medium- and long-term resources, which currently come only from shareholders' equity funds and institutional investors' time-deposits. Accordingly, banks have had difficulty in meeting the regulatory ratio requiring that not less than 75 percent of their medium- and long-term loans be funded by similar resources.

- *Credit concentration*. The regulatory framework encourages excessive credit concentration. Current regulation caps lending to a single borrower at 75 percent of regulatory capital, a very high limit by international standards (typically 20-25 percent).[21] Loans thus tend to be concentrated on a small number of large borrowers (mostly utility companies), raising the potential for systemic risk if a large common borrower falters or is hit by an adverse shock. At end-2011, the five largest borrowers accounted for about 60 percent of the banking systems' regulatory capital.

- *Borrower qualification*. None of the banks meet the ratio requiring that no less than 60 percent of their credit portfolio be made up of credits rated by BCEAO as eligible for its refinancing. This situation seems to be a union-wide feature of all the banks and explain the authorities' forbearance regarding the nonrespect of this ratio. This general infringement of the regulation likely has to do with (i) the limited size of the formal economy, which makes it difficult to find borrowers meeting the requirement of providing reliable financial statements using appropriate accounting standards; and (ii) the lack of incentives for banks to incur administrative costs to determine eligibility while they have a large and easy access to BCEAO refinancing for their stocks of government securities.

- *Deposit concentration*. The excessive weight of a small number of large depositors makes some banks vulnerable. For instance, a withdrawal of funds by large institutional depositors, such as the private sector social security fund, could have a major impact on some banks. This deposit concentration risk is not captured by the prudential norms.

51. The soundness of the Beninese banking system has improved over the last few years (Table 8).[22] The capital adequacy ratios for the sector as a whole have exceeded the norm of 8 percent since 2010, and credit concentation on the five largest borrowers of each bank has declined gradually since 2007 to 60 percent at end 2011. However, gross NPLs to total loans have been in the range of 16-17 percent since 2009, a relatively high level compared to other SSA countries (Figure 13).[23] At the same time, provisions for NPLs were maintained in the range of 55-65 percent. The profitability of the banking sector, measured in terms of return on equity turned positive in 2007 and has gradually increased since then, reaching 14 percent in 2011. It has approached the corresponding average in SSA countries in the last two years.

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[21] Some argue that in small markets these international standards should not have full sway.

[22] IMFa, 2012, presents the same table for WAEMU's consolidated banking system for 2006-10. Appendix IV of the report quoted presents an analysis on union-wide financial deepening in the same period.

[23] Of 28 SSA countries for which data on NPLs are available for 2011, only two (Liberia and Mali) had a ratio of NPLs to total deposits higher than Benin. The high NPL ratios in Benin are explained in part by the obligation for banks to keep NPLs in their books until the end of long judiciary proceedings, regardless of the likelihood of the assets' recovery. For this reason, NPL write-offs are rare, and banks keep adding new NPLs to the stock of old ones. The low flow of NPLs gives a more relevant view of the actual risk and explains the relatively high return on equity.

Table 8. Benin: Financial Soundness Indicators, 2005–11
(Percent, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011
Capital adequacy							
Regulatory capital to risk-weighted assets	6.10	1.47	2.78	3.64	6.76	9.97	10.35
Regulatory Tier 1 capital to risk weighted assets	5.64	0.97	2.44	3.54	6.25	8.79	9.85
Provisions to risk-weighted assets	7.56	8.43	9.55	8.95	9.61	11.69	10.13
Regulatory capital to total assets	3.85	0.92	1.53	2.13	5.35	5.04	5.45
Composition and quality of assets							
Total loans to total assets	56.30	61.72	54.52	53.24	52.86	51.64	50.67
Concentration: loans to 5 largest borrowers to capital	225.86	746.16	422.95	276.59	150.36	101.87	60.32
Gross nonperforming loans (NPLs) to loans	16.00	19.40	17.10	18.70	16.60	15.86	15.59
Provisions to nonperforming loans	46.45	49.94	51.64	55.00	57.14	64.76	61.05
Nonperforming loans net of provisions to gross loans	9.20	10.80	9.10	7.90	8.10	6.23	6.71
Nonperforming loans net of provisions to capital	151.30	709.49	321.48	233.44	106.71	63.81	62.45
Earnings and profitability							
Average cost of borrowed financial resources	2.70	2.70	2.90	3.10	3.00	3.10	3.20
Average interest rate on borrowed financial resources	8.40	9.10	9.50	9.80	9.50	9.80	10.10
Average interest margin[1]	5.70	6.40	6.60	6.70	6.50	6.70	6.90
Return on assets (ROA)	…	…	…	…	…	0.84	1.12
Return on equity (ROE)	-2.00	-4.80	1.00	12.50	6.00	16.68	14.02
Non-interest expenses to net income	67.26	68.77	66.40	61.52	58.61	61.10	61.60
Personnel expenses to net income	30.08	30.23	27.64	26.98	23.37	25.43	25.53
Liquidity							
Liquid assets to total assets	37.53	38.82	33.35	31.94	29.03	30.08	27.98
Liquid assets to total deposits	48.81	49.20	43.67	43.77	40.78	40.81	40.87
Loans to deposits	73.23	78.22	71.19	73.97	74.33	77.92	81.80
Deposits to total liabilities	76.88	78.90	76.58	72.97	71.12	73.86	68.46
Demand deposits to total liabilities[2]	40.40	41.94	38.59	37.63	33.29	35.39	32.02
Medium- and long-term deposits to total liabilities	36.48	39.48	37.99	35.34	37.83	38.46	36.44

Source: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

[1] Excluding taxes on banking operations.

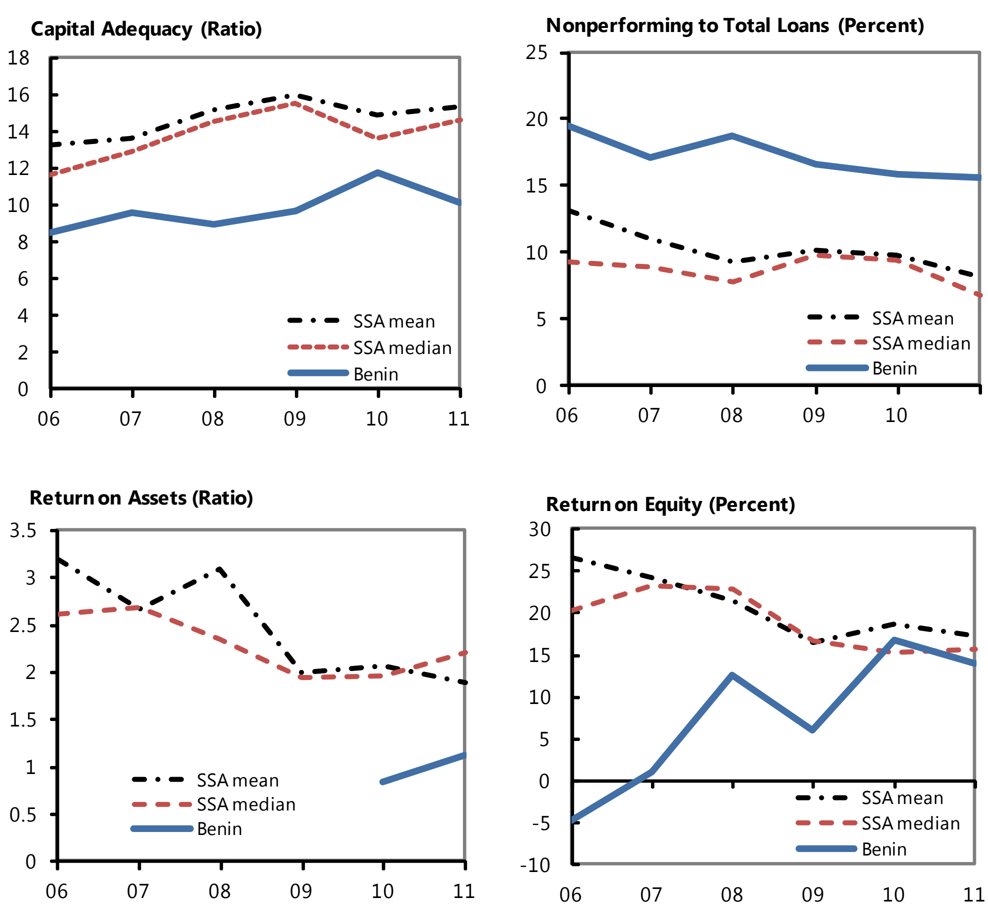
[2] Including savings accounts.

52. Although financial soundness indicators suggest that the sector as a whole is in relative good health, a number of risks are not captured by these indicators:

- *Asset concentration*. The risk inherent in asset concentration in government securities is not reflected by the solvency ratios because these assets are zero-weighted regardless of their actual underlying creditworthiness. Banks intensively engaged in the primary securities market have a high leverage and a strong capital adequacy ratio. The uniform application of zero-risk weighting to all sovereign assets leads to an overestimation of the apparent solvency of the banks in comparison with the solvency that would be derived from the methods recommended by the Basel II approach for risk weighting.[24]

[24] The BCEAO is considering moving to the Basel II regulatory framework in the future (IMFa, 2012, ¶27).

Figure 13. Benin and SSA Countries: Financial Soundness Indicators, 2006–11
(Units as indicated)



Sources: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO);
IMF, African Department Database.

- *Liquidity ratios*. These ratios can give a more favorable impression of the situation than is actually the case. Two specific bank practices contribute to this. First, with belated payments on loans to beneficiaries of government contract, resulting from delays in government payments to borrowers, banks do not systematically downgrade the quality of the loans concerned. Second, overdrafts are routinely extended, and loans are often restructured in such a manner that allows them to continue to be classified as liquid assets, while in reality they are frozen assets.[25]

- *Counterpart risk*. Claims on financial institutions are attributed a risk weight of 20 percent, regardless of the actual credit-worthiness of each institution. This Basel I approach is inconsistent with newer, risk-based supervision, and does not incite banks to assess their counterpart-risk exposures adequately.

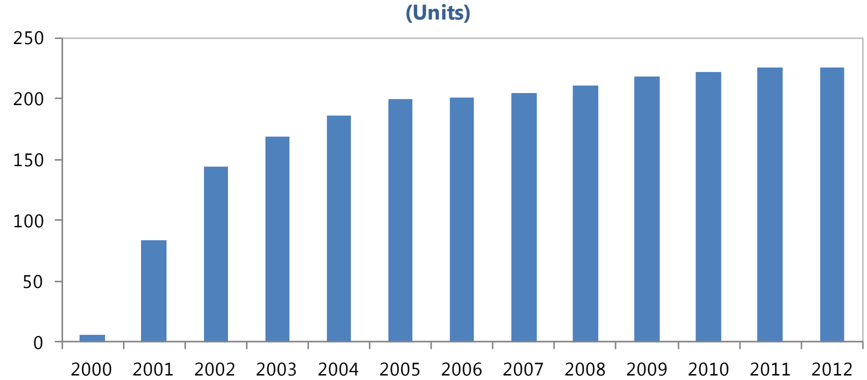
[25] This practice also underestimates NPLs.

53. The soundness indicators for the sector as a whole hide large disparities across banks. For instance, the relatively high capital adequacy ratio in Benin is largely attributable to the four largest banks. These highly leveraged banks had a return on equity above 20 percent, while new banks are still barely profitable. The largest banks hold large portfolios of government securities and re-invest the proceeds from these portfolios in similar securities. This practice results in an increase in these banks' leverage, which thus boosts their return on equity.

C. Supervision of the Microfinance Sector

54. The microfinance sector has a complex oversight system. Multiple entities are involved in licensing, regulating, supervising, and promoting the sector. The MOFE has the right to license an MFI, after a qualified opinion is issued by the BCEAO. Progress in licensing MFIs has been, however, quite slow since 2005 (Figure 14). The supervision of the sector is under the responsibility of the MOFE, which exercises it through a special unit in charge of decentralized financial entities (*Cellule de surveillance des structures financières décentralisées, CSSFD*). The BCEAO, through its national branch in Cotonou, and the BC-WAEMU perform the supervision of MFIs with deposits or loans exceeding CFAF 2 billion. The promotion of the sector is the responsibility of the Ministry of Microfinance, Youth Employment, and Women. This ministry elaborates and oversees the implementation of the national strategy for the development of the microfinance sector. ALAFIA provides inputs on the regulation and promotion of the sector to protect the interests of its members. Several donors are also involved in the financing of the sector or specific MFIs.

Figure 14. Benin: Licensed Microfinance Institutions, 2000–12
(Units)



Source: Cellule de Surveillance des Structures Financières Décentralisees (CSSFD), Ministry of Economy and Finance.

55. The authorities regard the strengthening of the regulation and supervision of the microfinance sector as a priority. The National Assembly adopted a new law, transposed from a union-wide regulatory framework for MFIs, in January 2012 in the wake of the rapid expansion of the sector and the emergence of fraudulent financial schemes. The framework tightens the conditions for creating an MFI, and gives enhanced supervisory powers to the MOFE and the BC-WAEMU.[26]

[26] "To prevent a re-emergence of Ponzi schemes, the government created a committee for financial stability and rationalization of the microfinance sector (*Comité de Stabilité Financière et d'Assainissement du Secteur de la*

(continued)

56. Limited supervisory capacity and effectiveness. Efforts are under way to help unauthorized MFIs **to meet the criteria required for obtaining a license.** The sector has gone through a serious crisis in 2010 because of illegal Ponzi-type schemes (Box 3). The reputational risk associated with these unauthorized financial intermediaries is thus high, and it undermines consumer confidence in the microfinance system.

Box 3. Benin: Ponzi Schemes

Financial Ponzi schemes (i.e., entities engaging in scams and fraudulent financial operations) began operating at the end of 2006 and attracted deposits from the general public with the promise of high returns. The first and the largest of these schemes—*Investment Consultancy and Computing Services*, ICCS—collapsed in June 2010. The collapse caused some social tensions. Similar fraudulent schemes collapsed later, causing further social tensions.

Fraud developed in the informal financial sector starting with unauthorized deposit taking entities. These entities, which took various names and legal forms, did not state that taking deposits was their principal purpose. They took advantage of the existence of widespread financial cooperative practices in the informal economy (i.e., savings clubs called "*tontines*") and thus the public was receptive to seemingly lucrative returns offered by these informal institutions.

Illegally collected funds were estimated at CFAF 161 billion (14.7 percent of the deposits of the authorized MFIs and banks), but the total amount of the deposits taken illegally may have been much higher. These funds came from about 150.000 depositors. The average deposit was around CFAF 500,000. Collected deposits were initially used to pay high interest to depositors to entice large-scale deposit collection. Later, some of the deposits were diverted to fraudulent purposes.

The authorities responded to the emergency by appointing an interministerial crisis committee and seizing the assets of the entities and of their managers, some of whom were arrested. Funds deposited by the illegal entities in banks amount to about CFAF 8 billion and have been frozen by the authorities. In addition, about 120 vehicles and some real estate, whose value has yet to be estimated, were seized. It is also possible that some of the funds invested in businesses may be recouped. The authorities' intent is to refund depositors with the proceed from these collection efforts.

The collapse of these schemes had limited impact on the banking system, where deposits continued to increase. A rise in repayment problems was reported at the time in the microfinance sector. The reputational damage to the microfinance sector is difficult to assess but it could have a lasting impact on the general public's confidence in the microfinance system.

Microfinance, CSFASM) in December 2011. The committee was tasked with (i) setting up and running a monitoring system over the microfinance sector; (ii) establishing a secure system for the exchange of information among all entities involved in the oversight of the sector; (iii) gradually closing all illegal microfinance entities; and (iv) ensuring that sanctions are taken against entities in violation of legal and regulatory measures governing the sector. The committee started its activities in April 2012 and had, as of mid-September 2012, launched investigations against a number of illegal entities.

THE GOVERNMENT SECURITIES MARKET

The regional government securities market has evolved positively since its establishment in 2001 and has been regularly used by Benin over the last seven years. The market has two alternative issuance methods. There is no secondary market in government securities. The regional authorities face the challenge to enhance the depth and the functioning of the market, notably through redirecting the market to long-term maturities, improving issuance predictability and coordination, and creating an effective secondary market.

57. Benin has been active on the primary regional government securities market since 2005. At end-June 2012, outstanding treasury bills (T-bills) and T-bonds issued by Benin through the central bank (auction) amounted to CFAF 225.2 billion and CFAF 98.8 billion, respectively. All T-bills were of one-year maturity, with an interest rate of 5.8 to 6.5 percent. T-bonds issued so far have had 7 to 10 years of maturity, with an interest rate of 5.5 to 6.5 percent. Of the outstanding securities issued by Benin through auctions, Beninese banks held CFAF 188 billion (58 percent) at end-June 2012. Beninese banks also held CFAF 263 billion worth of securities issued by other WAEMU governments.[27]

58. The securities market is characterized by the existence of two alternative issuance methods. Securities issuance can be done by auction through the BCEAO or by syndication through the CREPMF. Auctions have several advantages over syndication: (i) they are more transparent and cost the issuing government less; and (ii) auctioned securities are accepted as collateral in monetary policy operations. At end-June 2012, Benin had an outstanding debt of 68 billion (17 percent of total securities) from T-bonds issued through syndication in 2011, at 6.5 percent a year and with a 6-year maturity.

59. The securities market is beset by a number of weaknesses. These include limited-term structure, uncoordinated security issuance schedules, and absence of an effective secondary market that could reduce the cost of borrowing.

- *Limited-term structure*. Issued securities are concentrated in short-term maturities. Unlike T-bills, T-bonds are of limited interest to banks, owing to their longer maturities. Banks have a preference for investing in T-bills because they offer an attractive yield on relatively short maturities, are considered risk-free in the calculation of the solvency ratio, and are accepted as

[27] Benin's issuance of private corporate bonds and shares on the regional financial market (based in Abidjan) is limited. Only one Beninese company is listed on the stock market and there have been only four issuances of private corporate bonds so far, totaling CFAF 37 billions, of which CFAF 4 billion was outstanding at end-September 2010 (last available information). However, Beninese asset management companies operate actively as intermediaries on the regional financial market. Data provided by the Regional Council for Public Savings and Financial Markets (*Conseil Régional de l'Épargne Publique et des Marchés Financiers*, CREPMF) indicate that Beninese asset management companies held CFAF 476 billion of public and private bonds in their portfolios at end-September 2010.

collateral in refinancing operations with the BCEAO. Purchases of medium- and long-term T-bonds are also made difficult by the prudential regulation on maturity transformation.[28]

- *Uncoordinated security issuance schedules.* Governments are required to provide a schedule of planned issuances to the BCEAO at the beginning of each year. The schedules are, however, not binding nor coordinated among members.

- *Absence of an effective secondary market*. Such a market is practically inexistent. Limited interest in it is due largely to the above-noted structural excess liquidity at banks, and the lack of infrastructure and a legal framework needed to secure transactions in such a market. The establishment of a regulatory framework for primary dealers and repurchase operations (repos) could contribute to the development of this market.

60. The BCEAO is considering reforms to strengthen the operations of the regional securities market. These reforms include producing reliable annual schedules of government securities issuance; issuing all securities by auction; putting in place a network of primary dealers; establishing a legal framework for repos; promoting foreign participation; and setting up a government securities issuance coordination committee under the authority of the union's Council of Ministers.

CHALLENGES TO MACROECONOMIC POLICY

The shallowness of financial markets in the WAEMU does not overly constrain fiscal policy in Benin, but it offers little traction to monetary policy.

61. Government financing is not overly constrained by the shallowness of Benin's financial sector because of the existence of a liquid regional market. There is currently no explicit ceiling on how much government securities a WAEMU member may issue through auction or syndication. The union's monetary policy committee may, however, impose a limit on new issuances by union members through the BCEAO. But even this constraint is not fully binding, because a government might still issue bonds through syndication. The real limit seems to be in the absorptive capacity of the regional market. This capacity is not unlimited and thus it could be tested in case a government needed to finance a large need quickly, in response, say, to an unexpected shock. The test would be even more severe if several governments were confronted with simultaneous shocks. Moreover, Benin's T-bonds are mostly acquired by domestic banks, which also have a limited absorptive capacity.[29] This likely stems from external investor's low confidence in Benin's long-term securities. A significant shift to long-term bonds could potentially crowd out private sector lending.

62. The existing empirical evidence is consistent with the view that there are strong *a priori* reasons to believe that monetary transmission may be both weak and unreliable in shallow financial systems, like in Benin. A survey of empirical evidence completed by Mishra and Montiel (2012) concluded

[28] The prudential regulation requires banks to cover at least 75 percent of their long-term assets with long-term resources (of two years minimum).

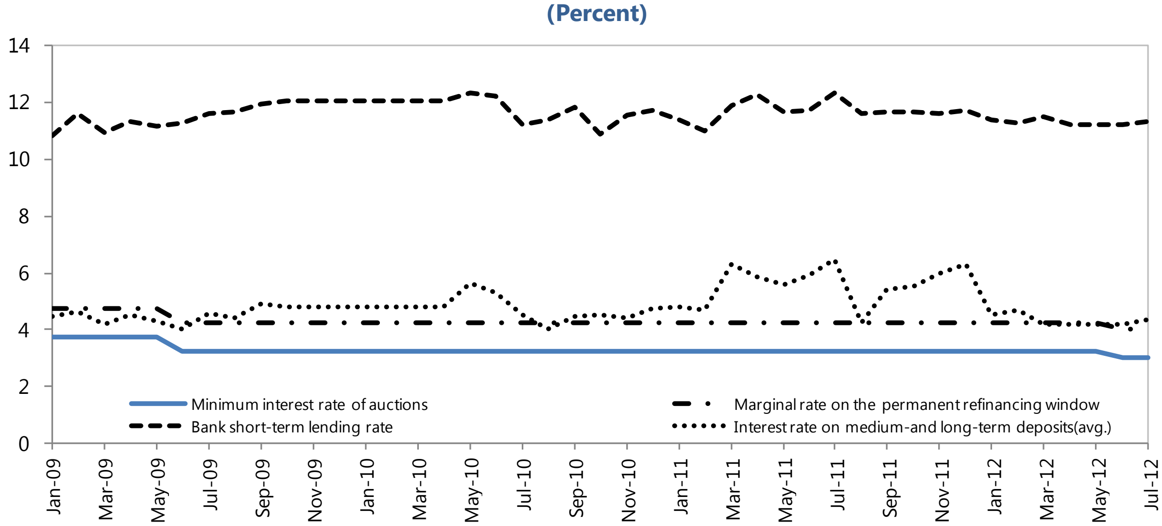
[29] Almost all T-bonds issued through auction and outstanding at end-June 2012 were held by Beninese banks.

that there was very weak evidence for the effectiveness of monetary transmission in LICs in SSA, whether an interest rate or the monetary base is considered to be the policy variable and whether identification of the monetary policy shock is achieved through recursive or structural means. A study by Saxegaard (2006) on excessive liquidity and effectiveness of monetary policy in the CEMAC, Nigeria, and Uganda, found that involuntary excess liquidity (which is calculated as total excess liquidity minus estimated excess liquidity held for precautionary purposes) weakened the monetary policy transmission mechanism in those countries, and thus the ability of monetary authorities to influence demand conditions in those countries. In the context of the WAEMU, Samaké's study on Benin (2010) concluded that excess bank liquidity lowers the effectiveness of monetary policy instruments through the credit channel. A recent study conducted by Ouedraogo (2011) on WAEMU countries reached the conclusion that bank concentration negatively affected credit supply and constrained the transmission of monetary policy in the union.

63. Bank lending rates in Benin do not seem to be sensitive to changes in policy rates. Figure 15 shows that the two policy rates were revised down only two times since January 2009 (in June 2009 and May 2012). The short-term interest rate on the money market (not shown in Figure 15 because too close to the minimum rate of auctions) remained between the two policy rates and the minimum rate of auctions. The recent changes in policy rates did not seem to have a notable impact on the average bank lending rate, which has remained in the range of 10.8-12.3 percent since January 2009. This observation is thus consistent with the empirical evidence presented above. However, it would need to be firmed up through a more thorough analysis and over a longer period.

64. Several factors limit the effectiveness of monetary policy transmission in Benin. The monetary transmission mechanism, i.e., the channels trough which monetary policy actions are transmitted to the ultimate objective of the policy, depends on two links: one between monetary policy actions and the availability and cost of bank credit; and another link between the availability and cost of bank loans and aggregate credit demand. In the context of Benin, these linkages seem to be weak because of the following factors:

Figure 15. Benin: Policy, Deposit, and Lending Interest Rates, 2009–12
(Percent)



Source: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

- *Structural excess liquidity*. Excess liquidity in the Beninese banking sector was around CFAF 37 billion (3.4 percent of bank deposits) on average during June 2009-June 2012 (Figure 10). In such a context, availability of liquidity is not a constraining factor on bank credit. A cut in policy rates is unlikely to push banks to use the central bank's refinancing facility to get more and cheaper liquidity, as they have already non-remunerated excess reserves. Consequently, the pass-through from the change in policy rates to bank lending rates and to the availability of bank credit is likely to be weak.

- *Absence of an operational interbank market*. The interbank market is supposed to fulfill the essential function of lender of first resort to banks in need of liquidity. The absence of such a market prevents a recycling of available liquidity among banks, thus limiting the volume of credit that the whole banking sector can extend. The absence of an interbank market that can play an arbitrative role between supply and demand of liquidity in the banking system makes credit conditions less responsive to changes in monetary policy.

- *Insufficient competition in the banking system*. In the case of a strong concentration in the banking sector, a reduction in banks' cost of funds resulting from a change in monetary policy may be reflected in increased profit margins, rather than in banks' lending rates.[30]

- *Limited link between the microfinance and banking sectors*. A reduced cost of funds could be used by microfinance institutions as an opportunity to acquire cheaper resources from banks to expand their lending activity. Given their relative small size in the financial sector, weaknesses in the supervision of this sector, and the limited link between the microfinance and banking sectors, this channel would not, in the case of Benin, play a significant role in the effectiveness of monetary policy.

- *Institutional and structural impediments to bank lending*. In case of a cut in the policy rate or in the reserve requirement, a poor institutional environment makes banks reluctant to reduce their lending rate to attract new borrowers because of imperfect information about borrowers and the resulting increase in the riskiness of the bank's loan portfolio. The high level of NPLs on the balance sheets of commercial banks, for which the banks are required to hold provisions, is an important factor leading to reluctance to respond to change in monetary policy instrument. Banks would need to sort out their legacy asset problems before they can raise lending to the private sector.

- *Existence of a large informal sector*. Besides the weak link between monetary policy and availability and cost of bank credit resulting from the factors presented above, the link between availability and cost of bank credit and aggregate credit demand is weakened by a large informal sector in Benin. A reduction in bank lending rates may have relatively little effect on

[30] Under limited competition, an increase in banks' cost of funds would generate an asymmetrical effect, because banks are likely to pass on the increase in lending rates instead of reducing their profit margins.

informal lending rates—customers of the informal sector cannot present the guaranties required by banks to move from the informal to the formal financial system and thus cannot exert downward pressure on the informal rates in the case of a cut in the policy rate. Only the relatively small number of borrowers of the formal financial system would be sensitive to a decline in bank lending rates.

RECOMMENDATIONS FOR FINANCIAL DEEPENING

The recommendations in this section focus on actions that could be implemented by Benin or put forward by Benin to union decision-making bodies. They authorities welcomed this forthcoming study and noted that its recommendations will be considered, especially since similar recommendations are being debated at the level of the union. The recommendations below are intended to enhance financial deepening, foster macro-financial stability, and improve macroeconomic policy effectiveness in Benin. They build on previous IMF technical assistance (Box 4). Another pilot review, to be prepared in the context of the Article IV consultation with WAEMU, will make recommendations on union-wide issues.[31]

Box 4. Benin: IMF Technical Assistance to the Financial System

IMF staff has provided policy advice to Benin on financial sector issues through surveillance, technical assistance, and program reviews. In the last two years, two IMF technical assistance missions visited Benin in (i) September 2010 to advise on managing a crisis generated by illegal deposit-taking entities; and (ii) December 2011 to carry out a diagnosis of the financial sector. The 2010 Article IV consultation assessed the risks posed by banks that were not in compliance with prudential regulations, and by unauthorized MFIs, which were operating fraudulent financial schemes. It advised the authorities to take prompt action to mitigate these risks. Subsequent Extended Credit Facility (ECF) program review missions assessed progress made in implementing the recommendations.

IMF staff advice also was provided on a range of issues related to the financial systems of the WAEMU, with implications for Benin. A mission in May 2011 advised the BCEAO on the implementation of recommendations made in 2007 under the Financial Sector Assessment Program (FSAP), public debt management, macro-prudential supervision, and an operational framework for monetary policy. The 2012 Article IV consultation with WAEMU also examined risks and vulnerabilities faced by the regional banking system, and progress made in bank supervision, monetary operations, interbank and government securities markets, and union-wide financial deepening.

[31] IMFa, 2012, provides union-wide recommendations that are relevant also to Benin and reports on the regional authorities' views on financial deepening (¶35-37).

A. Banking Sector

65. Facilitate risk assessment. To encourage banks to extend credit to the private sector beyond the limited circle of large businesses, financial information on borrowers should be made timely, available, and reliable to help banks assess risks, particularly for SMEs and non-salaried clients. In this vein, work on making the central registry of bad debts (*Centrale des incidents de paiements*) operational and on establishing a credit bureau should be accelerated. A credit bureau for banks would help to rein in the current proliferation of unreliable financial statements. A generalization of the existing unique tax identification number (*identifiant fiscal unique*) would make it easier to centralize data on individual borrowers.[32]

66. Improve the legal infrastructure to support credit contracts and their enforcement. Strengthening property rights and ensuring proper contract enforcement are critical elements for a better protection of the legal rights of creditors. This would give banks the means to recover their collateral through prompt and reasonably priced court procedures. The National Credit Council (NCC),[33] together with the Professional Bankers' Association and concerned public entities (justice, police, tax administration), could propose actions aimed at removing obstacles in this area.

67. Enhance the quality, coverage, and dissemination of information on banks' operating fees. Without financial transparency, there cannot be any credible prospect for an active interbank market or an attractive banking industry. Banks need reliable financial information that allows comparison among players and over time in order to assess counterpart risks. Customers are also entitled to information on the strengths and weaknesses of the bank to which they entrust their deposits. Providing financial information to the general public and to the media is one way of developing healthy competition and a "financial culture," and promoting modernization of financial instruments. In the absence of a financial communication agency, such as *Reuters*, an important step would be to encourage the prompt publication of detailed and audited annual financial statements by banks, and interim financial information, at least on a semi-annual basis. These statements could be posted in newspapers and on the internet to improve their dissemination.[34] The same goes for the publication of up-to-date bank charges and lending conditions, in order to allow potential customers to shop around.

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[32] This recommendation is consistent with two structural benchmarks under Benin's ECF arrangement with the IMF.

[33] The NCC in Benin is composed of the Minister of Finance, a representative of the national branch of the BCEAO, members of the monetary policy committee, the Director of the Treasury, and representatives of the banking association, consumer associations, and academia. The NCC is an advisory body, which monitors the operations and functioning of the financial system, and credit conditions. The NCC also advises on the macroeconomic framework implemented by the authorities (BCEAO, 2012).

[34] In some countries, banking supervisors offer space on their own web-sites where banks post their accounts under their own responsibility. In other countries, banks are encouraged to post their financial statements in a timely manner on their own web-site. In any case, financial statements may be published before formal approval by the supervisory authorities, external auditors, or shareholders, provided these publications carry a warning on their provisory status. Conversely, disseminating false financial data or fake statements should be sanctioned severely.

68. **Revise the prudential regulation on banks' credit portfolio.** No bank has been able to meet this norm. Accordingly, it would need to be revised at the union-level to avoid bringing prudential regulations as a whole into disrepute.

69. **Strengthen banking supervision**. Effective banking supervision requires proper observation and analysis, a decision-making body that can move promptly to take corrective action in case of need, and means for enforcing that action. The fact that two banks have been operating in Benin with negative equity over a long period and may continue to collect deposits to cover losses, is not consistent with this approach. This situation distorts competition among banks and risks undermining public confidence in the banking system. Concerned authorities should address this situation promptly.

70. **Strengthen macro-prudential oversight.**[35] The financial markets are influenced by developments in the real economy. In particular, trends in the major economic sectors (port, cotton sector, construction, etc.) and worker remittances have a significant impact. These developments—some of them cyclical—may be out of phase with the factors underpinning regional monetary policy. Coordination of regional and national policies should be enhanced to (i) track divergences between developments in the regional and national economies; (ii) identify, analyze, and measure the consequences of these divergences; and (iii) ensure that monetary policy objectives and prudential instruments converge on aligned incentives (e.g., regulations on refinancing and on risk weighting, relative levels of interest rates, etc.). In light of its composition and its advisory role, the NCC seems a suitable forum for developing proposals for macro-prudential measures that could improve the impact of monetary policy and help protect macro-financial stability in Benin.

71. **Promote innovative forms of banking.** Introducing mobile payments on a large scale will require enhanced provision of public infrastructure (in particular telecommunications) to reduce the cost of new services and the expansion of financial services to reach underserved areas. Agency banking[36] is another innovative way of extending the reach of banks at low cost. These innovative forms of banking will require an updated regulatory framework to allow their safe expansion.

B. Microfinance Sector

72. **Strengthen data production and dissemination.** The survey conducted in 2011 should be updated and extended, and the CSSFD should be strengthened in its data gathering capacity, so that stakeholders have a robust perspective of the sector. In particular, it is recommended to collect, and regularly update, the number of clients (depositors and borrowers) and transaction details for each identified MFI.

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[35] There are three main components to macro-prudential policy: (i) its objective, which is to limit systemic risk, namely the risk of extended breakdowns in the provision of financial services with the consequent adverse impact on the real economy; (ii) its coverage, which extends to the financial system as a whole, and its interaction with the real economy; and (iii) its instruments, namely the prudential tools targeting sources of systemic risk (Interim report to the G20, November 2010).

[36] Agency banking involves an existing business facility (e.g., a shop) acting as an agent and providing limited banking services on account of a bank (Veinard, C., 2010).

73. Address vulnerabilities of the microfinance sector:

- *Resolve distressed MFIs*. Some ten MFIs are currently in financial distress, mostly because of governance problems, lack of proper internal controls, and inadequate management information systems. The recent experiences of fraudulent financial schemes have undermined confidence in the microfinance sector. Against this background, it is important that distressed MFIs be either restructured or liquidated rapidly. This would send a strong signal to the whole sector.

- *Strengthen CSSFD*. The capacity of the CSSFD should be strengthened through additional means and technical assistance to increase the frequency of its on-site inspections.

- *Simplify licensing requirements and procedures* to reduce the delay for obtaining a licence to less than six months, as stipulated by the law. MFIs, which are not licensed, should move quickly to obtain authorization. To facilitate completion of this procedure in six months, unlicensed MFIs should be offered technical and material assistance to submit their applications in time and proper form. Authorities should send a strong signal to the microfinance sector by closing institutions which are operating illegally and are not in the process of being regularized.

74. Increase the resources of MFI supervisory bodies. The regulatory framework for microfinance has been reinforced with the National Assembly's adoption of new regional legislation in January 2012 and its promulgation by the president in March 2012. The provisions of that law should now be put into effect. MFIs that are not of a sufficient operating scale could be encouraged to merge or to be taken over by licensed institutions. The resources and the capacity of the CSSFD should be boosted to cope with the anticipated increase in the number of licensed MFIs. Similarly, the Committee on Financial Stability and Rationalization of the Microfinance Sector (CFSASM), created in April 2012, needs to operate effectively to accomplish its important mission.

75. Provide MFIs with long-term funding. Because the resources of the MFIs consist essentially of demand deposits, it would be appropriate to provide them with medium- and long-term resources through an appropriate funding mechanism. Such financing should be made available to MFIs on a commercial basis, along with the provision of supportive technical assistance. This role is successfully played in many LICs by "apex institutions." An apex institution is a second-tier (or "wholesale") fund that channels public resources to multiple retail financial providers—often MFIs—for on-lending. Apex institutions typically have an objective of developing the institutional capacity of early-stage MFIs, by providing grants and capacity-building assistance. They are generally a good solution in environments where medium-to-long term funding is in short supply; for instance, where commercial banks do not have confidence in MFIs' creditworthiness. Apex facilities have become increasingly popular with LIC governments, as well as with development finance institutions and multilateral development agencies.[37]

[37] A CGAP mapping exercise identified 76 apex institutions in 46 countries. In 2009, the largest 15 of them disbursed US$1.5 billion. Public funding was the main source of their resources. Typically, national finance ministries were the main source of funding, followed by multilateral development agencies, and bilateral donors. In some exceptional cases, apex institutions were funded by commercial banks or by non-governmental organizations and private investors. Most apex institutions were funded with subsidized resources (grants, or loans at well below market interest rates). As apex institutions grow, retained earnings become an increasingly important source of their funds.

The NFM, whose current setup and function resembles the concept of an apex institution, could potentially be used to play this role in Benin to foster MFI lending to MSEs. However, its current strong bias towards a microcredit approach focused on the poorest households would require adaptation to its contemplated new role.

76. Offer appropriate incentives to MFIs to reach out to underserved rural areas. These incentives could take the form of government participation in (i) the purchase or construction of the necessary infrastructure; (ii) the purchase of equipment (computers, safe deposit boxes, motor bikes); and (iii) in certain cases, the temporary funding of the salaries of staff of the new units. External grants could be raised for this purpose through the NFM.

77. Allow MFIs to expand the range of their services. For the time being, union-wide regulations set a limit of 5 percent of total assets on activities other than savings and credit services. By lessening this constraint, MFIs could venture into new, profitable activities, such as microinsurance and money transfer. This would contribute to financial deepening and breadth expansion.[38]

78. Strengthen MFIs' management capacity and human resources quality. The authorities, and more specifically the Microfinance Ministry, should help MFIs reinforce their capacities, working perhaps through ALAFIA, to raise their capacity to abide by governing regulations. MFIs should be helped to secure information tools for their internal management and supervision.

79. Take steps to educate the public in microfinance matters. Such education would be particularly useful for low-income populations that are likely to benefit the most from microfinance services. They are also the groups that are most exposed to fraud. The authorities should work together with MFIs in this endeavor.

[38] WAEMU authorities are reportedly considering raising the limit from 5 percent to 10 percent.

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BENIN

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2012 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT— UPDATE OF THE DEBT SUSTAINABILITY ANALYSIS

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Prepared by the International Monetary Fund and the International Development Association[1]

The update of debt sustainability analysis (DSA) confirms a low risk of debt distress. The projected external debt indicators, despite a moderate deterioration owing to less favorable medium-term growth and export prospects, remain below the policy-dependant thresholds under the baseline scenario and stress tests. The inclusion of domestic public debt shows a gradual decrease in all debt indicators confirming the conclusion of the external DSA. This assessment, however, critically depends on the assumption that the authorities will continue to pursue prudent fiscal and debt policies and will implement structural reforms to enhance competitiveness and growth.

[1] Prepared in collaboration with the Beninese authorities. The fiscal year for Benin is January 1–December 31. The previous DSA update was performed in August 2011 (IMF Country Report No. 11/243).

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

1. **The medium-term macroeconomic outlook has been revised downward to reflect a more challenging environment, but the assumptions under the baseline scenario remain broadly in line with those used in the previous DSA**. Near-term growth and export perspectives have deteriorated moderately, because of the continuing global crisis (Text Table 1). Real GDP growth is still expected to increase to 5 percent over the long term, following the implementation of structural reforms aimed at strengthening competitiveness and improving public infrastructure. The primary fiscal deficit[2] and the non-interest external current account deficit are expected to stabilize at 1¼ percent of GDP and at about 4 ½ percent of GDP, respectively. Over the medium-term, it is assumed that the authorities will continue to benefit from sizeable concessional borrowing from multilateral donors. Domestic public debt is projected to start declining in 2013, owing to the clearance of domestic arrears and the authorities' prudent borrowing strategy.

Text Table 1. Benin: Evolution of selected macroeconomic indicators

	2011	2012	2013
Real GDP growth (percent)			
Previous DSA	3.8	4.3	4.8
Current DSA	3.5	3.5	3.8
Growth of exports (percent)			
Previous DSA	15.3	4.9	4.8
Current DSA	-18.9	3.9	8.9
Non-interest current account deficit (percent of GDP)			
Previous DSA	7.4	7.2	6.6
Current DSA	9.7	9.2	9.2
Primary fiscal deficit (percent of GDP)			
Previous DSA	0.8	0.9	0.1
Current DSA	1.4	0.1	0.6

Sources: Beninese authorities; IMF staff estimates.

2. **The large size of the informal sector complicates the DSA for Benin.** The large size of the informal economy, and above all the large amount of imports that subsequently become unregistered exports to Nigeria, lead to an overestimation of the external current account deficit and to large residuals in the external debt sustainability analysis.

3. **Risks to the baseline are skewed to the downside.** Externally, the deterioration of the global environment could result in lower-than-expected exports,[3] foreign direct investment, and remittances. Domestically, much will depend on maintaining prudent macroeconomic policies and implementing structural reforms that will boost the economy's supply response. The current assessment also critically depends on the authorities' debt management capacity and the availability of concessional external assistance to finance investment projects.

[2] The primary fiscal deficit is computed as revenue and grants minus primary (non-interest) expenditure.

[3] The Beninese economy is becoming less dependent on the cotton sector. For instance, the weight of cotton in exports has steadily declined over the last two decades, from 83 percent of exports in 1999 to just 17 percent in 2011. This evolution confirms that the risk related to cotton price volatility and financing of cotton activities is relatively moderate.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

4. With all debt indicators expected to remain below their relevant policy-dependent thresholds, the most extreme shock scenario[4] shows that some vulnerability persists (Figure 1, Tables 1 and 2). Stress tests reveal Beninese external debt suitability is vulnerable to a one-time depreciation of the exchange rate and an export shock. In the most extreme shock scenario, the present value (PV) of the debt-to-exports ratio is expected to increase significantly without, however, breaching its threshold.[5] The other indicators are also sensitive to the most extreme shock, although to a lesser extent. The historical scenario shows another significant vulnerability to external debt sustainability.[6]

B. Public Debt Sustainability Analysis

5. Total (external and domestic) debt is projected to decline gradually, owing to the authorities' strategy to repay securitized wage arrears and to continue relying on external concessional financing (Figure 2, Table 3). Debt indicators are vulnerable to the most extreme shock, calibrated as a significant increase in other debt-creating flows (Table 4). All debt ratios are sensitive to lower GDP growth and primary fiscal balance assumptions.[7]

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[4] The most extreme test shock is calibrated as an export shock equal to the historical average (2001–10) of export growth plus one standard deviation (in the same period), or a one-time, 30-percent nominal currency depreciation. The shock is assumed to take place in 2013-14. The average export growth is computed for 2001–10 to avoid the end-of-the-sample bias resulting from a substantial negative shock to exports that occurred in 2011. Temporary disruptions at the port of Cotonou contributed to a major decline in export activity, 34 percent below the 2001-10 average export growth. This temporary shock is not representative of past and future shocks.

[5] Debt sustainability thresholds are determined by the three-year average the Country Policy and Institutional Assessment (CPIA) rating (3.5), which classifies Benin as having medium-quality policies and institutional frameworks.

[6] Under this scenario, the key variables are held constant at their 10-year average. In particular, real GDP growth is assumed to be 3.6 percent; GDP deflator growth (in U.S. dollar terms) 7.6 percent; the non-interest external current account deficit

(continued)

7.5 percent of GDP; and net foreign direct investment flows 2.1 percent of GDP.

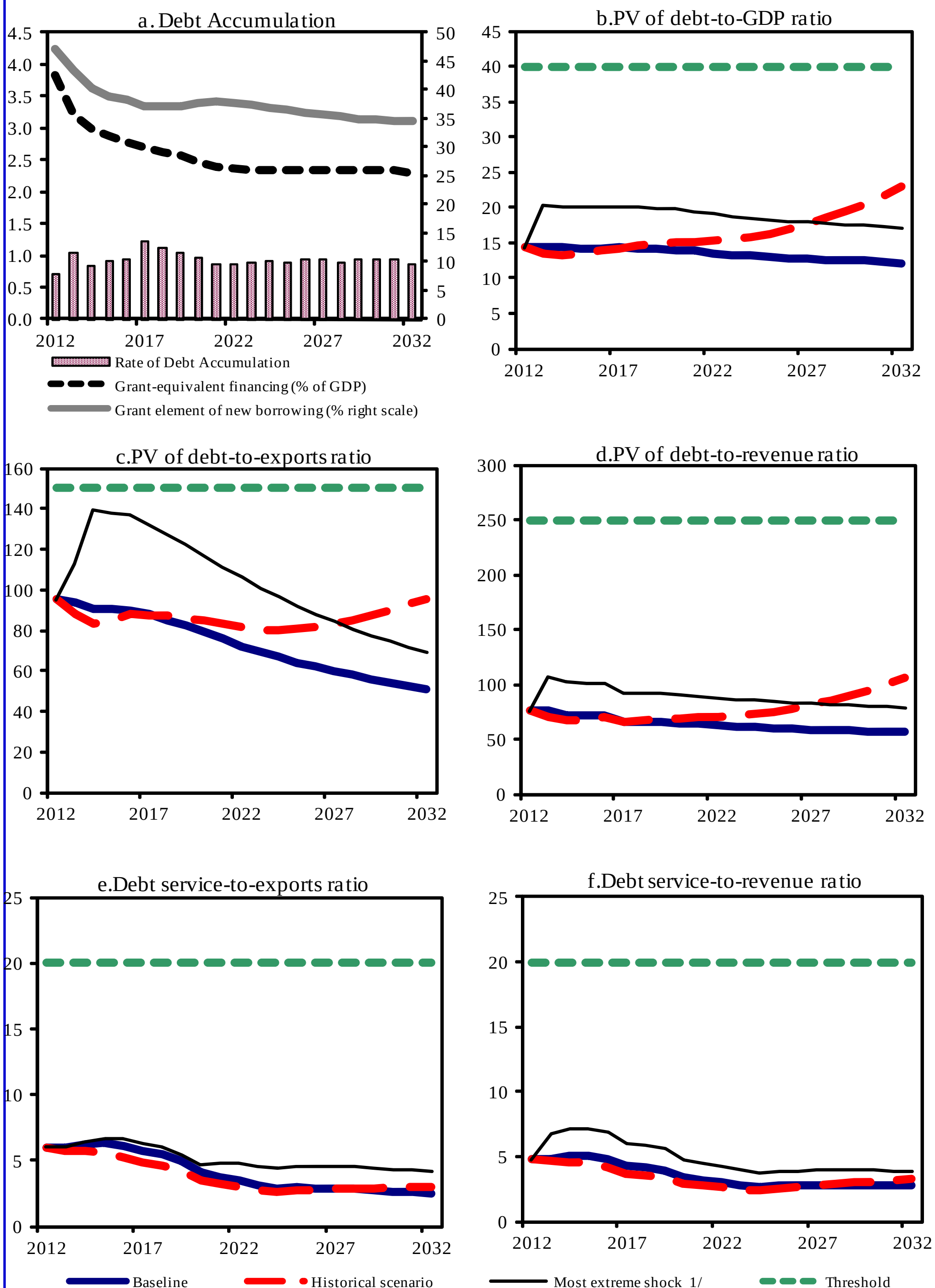
[7] Real GDP growth and primary fiscal balance (in percent of GDP) are projected to remain at their 10-year average, i.e., at 3.6 percent and -1.4 percent, respectively.

CONCLUSION

6. **The updated DSA confirms that Benin faces a low risk of debt distress under the assumptions of prudent macroeconomic policies and timely, efficiency-enhancing structural reforms.** It is noteworthy that the updated DSA presents a moderately worse debt outlook than the previous DSA. The baseline and alternative stress test scenarios continue to indicate that external debt positions present low vulnerabilities to shocks. The inclusion of domestic public debt in the analysis confirms the conclusions of the external DSA.

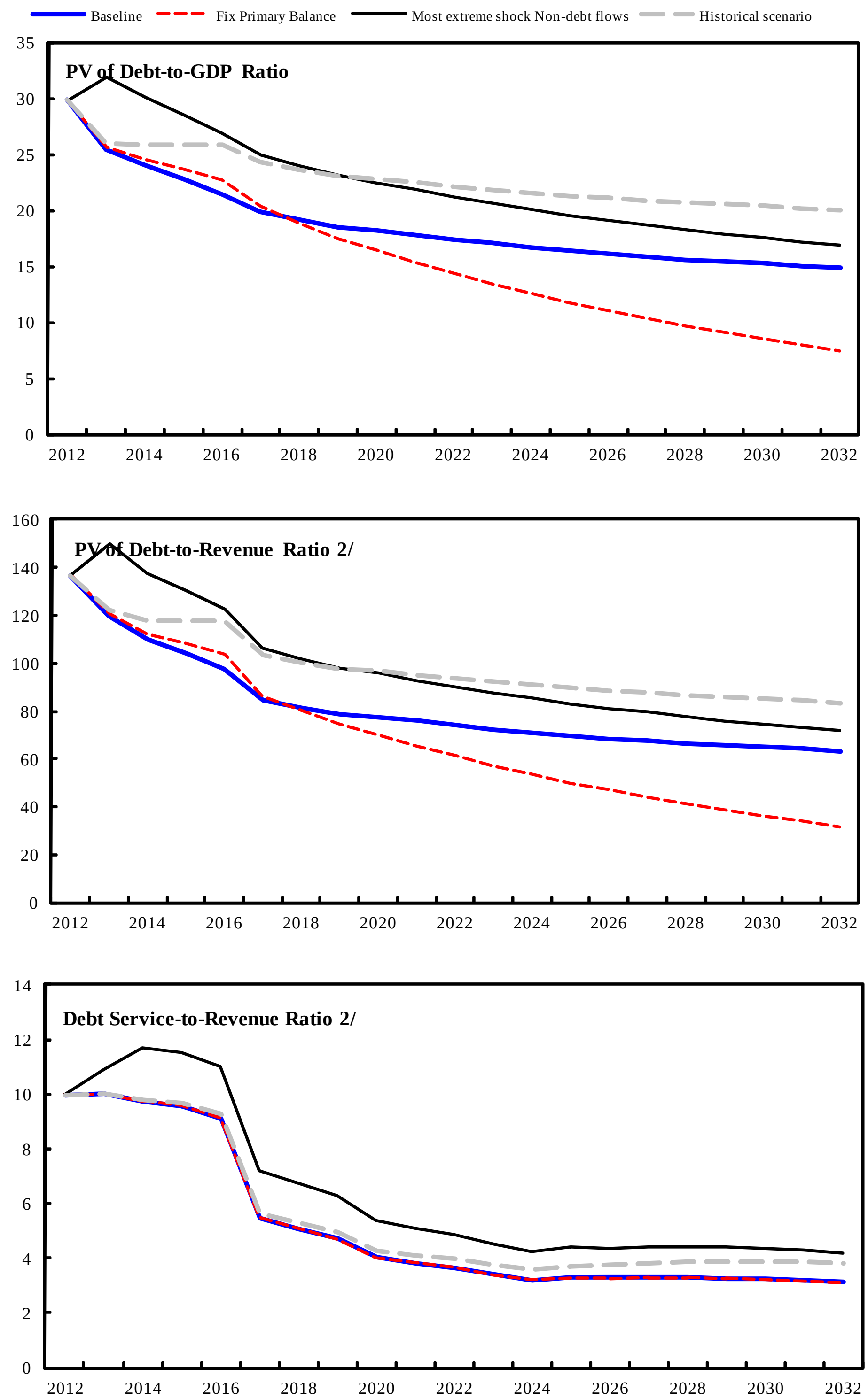
7. **The authorities agree with the staff's conclusions.** They concur that debt sustainability will depend crucially on improvements in economic diversification, sustained growth, fiscal consolidation, and a continuation of a prudent borrowing strategy relying mainly on grants and external concessional financing.

Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt unc



Sources: Beninese authorities; IMF and World Bank staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Figure 2.Benin: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Beninese authorities; IMF and World Bank staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 1.: Benin: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	15.7	17.9	17.7			17.3	18.0	18.3	18.8	19.2	19.8		19.5	17.3	
o/w public and publicly guaranteed (PPG)	15.7	17.9	17.7			17.3	18.0	18.3	18.8	19.2	19.8		19.5	17.3	
Change in external debt	-0.8	2.3	-0.2			-0.4	0.7	0.4	0.4	0.4	0.6		-0.4	-0.2	
Identified net debt-creating flows	7.5	4.4	5.2			5.9	5.8	4.7	4.0	3.6	4.2		3.6	1.1	
Non-interest current account deficit	8.7	7.0	9.7	7.5	1.5	9.2	9.2	8.3	7.8	7.5	7.3		6.8	4.2	6.0
Deficit in balance of goods and services	13.4	10.6	12.7			12.7	12.6	11.8	11.3	11.1	11.0		10.3	7.9	
Exports	16.5	20.6	15.0			15.1	15.3	15.8	15.8	15.8	16.3		18.8	24.0	
Imports	29.8	31.1	27.6			27.7	27.9	27.6	27.0	26.8	27.2		29.1	31.8	
Net current transfers (negative = inflow)	-5.0	-4.1	-3.2	-5.0	1.0	-3.7	-3.6	-3.6	-3.5	-3.6	-3.6		-3.8	-3.9	-3.8
o/w official	-3.9	-3.0	-1.8			-2.3	-2.1	-2.0	-1.9	-1.9	-1.9		-1.9	-1.9	
Other current account flows (negative = net inflow)	0.2	0.6	0.3			0.2	0.2	0.1	0.1	0.0	0.0		0.2	0.2	
Net FDI (negative = inflow)	-1.6	-3.0	-2.9	-2.1	1.3	-3.0	-3.2	-3.3	-3.5	-3.6	-2.8		-2.5	-2.5	-2.6
Endogenous debt dynamics 2/	0.4	0.3	-1.6			-0.3	-0.3	-0.3	-0.3	-0.3	-0.4		-0.6	-0.6	
Contribution from nominal interest rate	0.3	0.2	0.2			0.3	0.3	0.4	0.4	0.5	0.5		0.3	0.3	
Contribution from real GDP growth	-0.4	-0.4	-0.6			-0.6	-0.6	-0.7	-0.7	-0.8	-0.9		-0.9	-0.8	
Contribution from price and exchange rate changes	0.6	0.5	-1.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	-8.3	-2.1	-5.5			-6.3	-5.1	-4.4	-3.6	-3.1	-3.6		-4.0	-1.4	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	15.2			14.3	14.4	14.3	14.2	14.2	14.3		13.6	12.2	
In percent of exports	...	...	101.3			95.3	94.0	90.5	90.2	89.9	87.9		72.2	50.8	
PV of PPG external debt	...	...	15.2			14.3	14.4	14.3	14.2	14.2	14.3		13.6	12.2	
In percent of exports	...	...	101.3			95.3	94.0	90.5	90.2	89.9	87.9		72.2	50.8	
In percent of government revenues	...	...	86.3			75.9	75.5	72.3	71.5	71.2	65.8		62.5	56.1	
Debt service-to-exports ratio (in percent)	3.4	3.6	5.0			6.0	6.0	6.3	6.4	6.1	5.7		3.5	2.5	
PPG debt service-to-exports ratio (in percent)	3.4	3.6	5.0			6.0	6.0	6.3	6.4	6.1	5.7		3.5	2.5	
PPG debt service-to-revenue ratio (in percent)	3.1	4.0	4.3			4.8	4.8	5.0	5.1	4.8	4.2		3.0	2.7	
Total gross financing need (Millions of U.S. dollars)	0.5	0.3	0.6			0.5	0.6	0.5	0.5	0.5	0.6		0.8	0.8	
Non-interest current account deficit that stabilizes debt ratio	9.5	4.8	10.0			9.6	8.5	8.0	7.4	7.1	6.8		7.1	4.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.7	2.6	3.5	3.6	0.9	3.5	3.8	4.1	4.3	4.5	4.8	4.2	5.1	5.1	5.0
GDP deflator in US dollar terms (change in percent)	-3.3	-2.9	7.5	7.6	7.7	-0.2	3.2	2.6	2.5	2.3	3.0	2.2	3.0	3.0	3.0
Effective interest rate (percent) 5/	1.7	1.5	1.4	2.9	4.7	2.0	2.1	2.4	2.5	2.6	2.8	2.4	1.6	1.7	1.7
Growth of exports of G&S (US dollar terms, in percent)	-8.1	24.4	-18.9	13.0	20.2	3.9	8.9	10.1	6.8	7.0	11.2	8.0	11.2	10.9	11.0
Growth of imports of G&S (US dollar terms, in percent)	-4.8	3.8	-1.2	13.2	17.9	3.7	7.9	5.4	4.9	6.0	9.5	6.2	9.5	9.2	9.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.2	43.5	40.4	38.8	38.4	37.2	40.9	37.6	34.5	36.3
Government revenues (excluding grants, in percent of GDP)	18.5	18.6	17.6			18.9	19.1	19.7	19.9	19.9	21.7		21.7	21.7	21.7
Aid flows (in Millions of US dollars) 7/	0.2	0.1	0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.4	0.7	
o/w Grants	0.2	0.1	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.6	
o/w Concessional loans	0.0	0.0	0.0			0.1	0.1	0.1	0.1	0.1	0.1		78.5	78.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.8	3.2	3.0	2.9	2.8	2.7		2.4	2.3	2.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			78.7	70.6	70.7	68.3	67.8	63.9		71.4	71.2	70.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	6.6	6.6	7.3			7.5	8.1	8.6	9.2	9.9	10.6		15.7	34.6	
Nominal dollar GDP growth	-0.7	-0.4	11.3			3.3	7.1	6.8	6.9	6.9	7.9	6.5	8.3	8.3	8.2
PV of PPG external debt (in Millions of US dollars)			1.0			1.1	1.2	1.2	1.3	1.4	1.5		2.1	4.2	
(PVt-PVt-1)/GDPt-1 (in percent)						0.7	1.0	0.8	0.9	0.9	1.2	0.9	0.9	0.8	0.9
Gross workers' remittances (Millions of US dollars)	0.1	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.9			14.1	14.2	14.0	14.0	13.9	14.0		13.3	11.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	89.7			85.8	84.6	81.5	81.0	80.6	78.8		65.2	46.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.4			5.4	5.4	5.6	5.8	5.5	5.1		3.2	2.3	

Sources: Beninese authorities; IMF and World Bank staff estimates and projections.

1/ Includes both public and private sector external debt. Some debt series may not be directly comparable to those presented in Table 1 of the staff report owing to different exchange rate and interest rate forecasts at the time of the preparation of this document.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; capital grants; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of debt-to-GDP ratio								
Baseline	14	14	14	14	14	14	14	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	14	13	13	13	14	14	15	23
A2. New public sector loans on less favorable terms in 2012-2032 2	14	15	15	16	17	17	19	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	14	15	15	15	14	15	14	12
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	14	15	17	17	17	17	16	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	14	15	15	15	15	15	14	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	14	16	17	17	16	16	15	13
B5. Combination of B1-B4 using one-half standard deviation shocks	14	15	17	17	17	17	15	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	14	20	20	20	20	20	19	17
PV of debt-to-exports ratio								
Baseline	95	94	90	90	90	88	72	51
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	95	88	84	85	88	88	81	95
A2. New public sector loans on less favorable terms in 2012-2032 2	95	98	98	101	105	106	100	81
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	95	94	90	90	90	88	72	51
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	95	113	139	138	137	132	106	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	95	94	90	90	90	88	72	51
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	95	102	106	105	105	101	81	54
B5. Combination of B1-B4 using one-half standard deviation shocks	95	107	122	121	120	117	94	61
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	95	94	90	90	90	88	72	51
PV of debt-to-revenue ratio								
Baseline	76	76	72	72	71	66	62	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	76	71	67	67	70	66	70	105
A2. New public sector loans on less favorable terms in 2012-2032 2	76	79	78	80	83	80	86	90
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	76	76	74	73	73	67	64	57
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	76	81	88	87	86	78	72	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	76	78	77	76	75	70	66	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	76	82	85	84	83	76	70	59
B5. Combination of B1-B4 using one-half standard deviation shocks	76	81	86	85	84	77	71	59
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	76	106	102	101	100	93	88	79

Table 2.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)

(In percent)

				Projections				
	2012	2013	2014	2015	2016	2017	2022	2032
Debt service-to-exports ratio								
Baseline	6	6	6	6	6	6	4	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	6	6	6	6	5	5	3	3
A2. New public sector loans on less favorable terms in 2012-2032 2	6	6	6	7	7	6	5	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	6	6	6	6	6	6	4	2
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	6	7	8	9	8	8	5	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	6	6	6	6	6	6	4	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	6	6	6	7	6	6	4	3
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	7	8	7	7	4	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	6	6	6	6	6	6	4	2
Debt service-to-revenue ratio								
Baseline	5	5	5	5	5	4	3	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	5	5	5	4	4	4	3	3
A2. New public sector loans on less favorable terms in 2012-2032 2	5	5	5	5	5	5	4	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	5	5	5	5	5	4	3	3
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	5	5	5	5	5	5	3	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	5	5	5	5	5	4	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	5	5	5	5	5	4	3	3
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	5	5	4	3	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	5	7	7	7	7	6	4	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	36	36

Sources: Beninese authorities; IMF and World Bank staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly a
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3.Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032

(In percent of GDP, unless otherwise indicated)

	Actual 2009	2010	2011	Average 5/	Standard Deviation 5/	Projections 2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	27.5	30.0	31.5			32.8	29.1	28.1	27.3	26.4	25.4		23.3	19.9	
o/w foreign-currency denominated	15.7	17.9	17.7			17.3	18.0	18.3	18.8	19.2	19.8		19.5	17.3	
Change in public sector debt	1.0	2.5	1.5			1.2	-3.7	-0.9	-0.8	-0.9	-1.1		-0.5	-0.3	
Identified debt-creating flows	2.0	1.0	0.7			-2.2	-0.9	-1.6	-1.8	-1.7	0.1		-0.1	0.1	
Primary deficit	3.8	1.0	1.4	1.4	1.7	0.1	0.6	-0.4	-0.6	-0.7	1.3	0.0	1.3	1.3	1.3
Revenue and grants	21.7	20.0	20.1			21.8	21.3	21.9	21.9	21.9	23.5		23.5	23.5	
of which: grants	3.2	1.5	2.5			2.9	2.2	2.1	2.0	2.0	1.8		1.8	1.8	
Primary (noninterest) expenditure	25.5	21.1	21.5			21.8	21.9	21.5	21.3	21.2	24.8		24.8	24.8	
Automatic debt dynamics	-1.2	0.5	-0.7			-2.3	-1.5	-1.2	-1.1	-1.0	-1.1		-1.3	-1.1	
Contribution from interest rate/growth differential	0.2	0.1	-2.1			-1.1	-1.5	-1.2	-1.1	-1.0	-1.1		-1.3	-1.1	
of which: contribution from average real interest rate	0.9	0.8	-1.1			0.0	-0.3	0.0	0.0	0.1	0.1		-0.2	-0.2	
of which: contribution from real GDP growth	-0.7	-0.7	-1.0			-1.1	-1.2	-1.1	-1.2	-1.2	-1.2		-1.2	-1.0	
Contribution from real exchange rate depreciation	-1.4	0.4	1.4			-1.2	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-0.6	-0.5	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.6	-0.5	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.0	1.5	0.8			3.5	-2.8	0.7	0.9	0.8	-1.2		-0.4	-0.4	
Other Sustainability Indicators															
PV of public sector debt	...	12.1	29.0			29.8	25.5	24.1	22.8	21.4	19.8		17.4	14.8	
o/w foreign-currency denominated	...	0.0	15.2			14.3	14.4	14.3	14.2	14.2	14.3		13.6	12.2	
o/w external	...	...	15.2			14.3	14.4	14.3	14.2	14.2	14.3		13.6	12.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of public sector debt-to-revenue and grants ratio (in perce	...	60.3	144.1			136.8	119.8	110.0	104.0	97.8	84.4		74.1	63.1	
PV of public sector debt-to-revenue ratio (in percent)	...	65.1	164.9			157.8	133.6	122.0	114.6	107.4	91.4		80.2	68.3	
o/w external 3/	...	...	86.3			75.9	75.5	72.3	71.5	71.2	65.8		62.5	56.1	
Debt service-to-revenue and grants ratio (in percent) 4/	6.0	7.2	8.9			10.0	10.0	9.7	9.6	9.1	5.5	3.7	3.4	3.1	
Debt service-to-revenue ratio (in percent) 4/	7.1	7.8	10.2			11.5	11.1	10.8	10.5	10.0	5.9		4.0	3.4	
Primary deficit that stabilizes the debt-to-GDP ratio	2.8	-1.5	-0.1			-1.2	4.3	0.5	0.2	0.2	2.3		1.8	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.7	2.6	3.5	3.6	0.9	3.5	3.8	4.1	4.3	0.0	4.8	3.4	5.1	5.1	5.0
Average nominal interest rate on forex debt (in percent)	1.7	1.5	1.4	2.9	4.7	2.0	2.1	2.4	2.5	2.6	2.8	2.4	1.6	1.7	1.7
Average real interest rate on domestic debt (in percent)	0.5	0.7	-0.6	-1.0	2.5	-2.7	-1.0	-0.1	0.4	1.0	1.9	-0.1	1.9	1.9	1.9
Real exchange rate depreciation (in percent, + indicates depre	-8.4	2.8	8.4	1.0	9.4	-7.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.0	1.9	2.4	2.8	1.9	5.5	3.1	3.0	2.9	2.8	3.5	3.5	3.5	3.5	3.5
Growth of real primary spending (deflated by GDP deflator, ir	0.2	-0.2	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	47.2	43.5	40.4	38.8	38.4	37.2	40.9	37.6	34.5	...

Sources: Beninese authorities; IMF and World Bank staff estimates and projections.

1/ Some debt series may not be directly comparable to those presented in Table 1 of the staff report owing to different exchange rate and interest rate forecasts at the time of the preparation of this document.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4.Benin: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	30	25	24	23	21	20	17	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	26	26	26	26	24	22	20
A2. Primary balance is unchanged from 2012	30	26	25	24	23	20	14	7
A3. Permanently lower GDP growth 1/	30	26	24	23	22	20	18	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	30	26	25	23	22	20	18	15
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	30	27	28	26	25	23	20	16
B3. Combination of B1-B2 using one half standard deviation shocks	30	27	27	26	24	22	19	16
B4. One-time 30 percent real depreciation in 2013	30	57	29	27	25	23	19	15
B5. 10 percent of GDP increase in other debt-creating flows in 2013	30	32	30	28	27	25	21	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	137	120	110	104	98	84	74	63
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	137	122	118	118	118	103	94	83
A2. Primary balance is unchanged from 2012	137	121	112	108	104	86	61	32
A3. Permanently lower GDP growth 1/	137	120	110	105	99	85	75	65
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	137	121	113	107	100	87	76	64
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	137	127	127	120	113	98	84	68
B3. Combination of B1-B2 using one half standard deviation shocks	137	126	124	117	110	96	82	67
B4. One-time 30 percent real depreciation in 2013	137	267	132	123	115	98	81	64
B5. 10 percent of GDP increase in other debt-creating flows in 2013	137	150	137	130	123	106	90	72
Debt Service-to-Revenue Ratio 2/								
Baseline	10	10	10	10	9	5	4	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	10	10	10	9	6	4	4
A2. Primary balance is unchanged from 2012	10	10	10	10	9	5	4	3
A3. Permanently lower GDP growth 1/	10	10	10	10	9	5	4	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	10	10	10	10	9	5	4	3
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	10	10	10	10	9	5	4	3
B3. Combination of B1-B2 using one half standard deviation shocks	10	10	10	10	9	5	4	3
B4. One-time 30 percent real depreciation in 2013	10	11	12	12	11	7	5	4
B5. 10 percent of GDP increase in other debt-creating flows in 2013	10	10	10	10	9	5	4	3

Sources: Beninese authorities; IMF and World Bank staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

BENIN

2012 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

October 26, 2012

Prepared By The African Department

(In consultation with other departments)

CONTENTS

I. RELATIONS WITH THE FUND

(As of August 31, 2012)

I. Membership Status: Joined: July 10, 1963 Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund holdings of currency	59.65	96.36
Reserve Tranche Position	2.30	3.71
Notes Issuance	...	...
Holdings Exchange Rate	...	...

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	59.17	100.00
Holdings	49.70	84.00

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	66.78	107.88

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Jun 14, 2010	Sep 13, 2013	74.28	42.45
ECF[1]	Aug 05, 2005	Jun 30, 2009	24.77	24.77
ECF[1]	Jul 17, 2000	Mar 31, 2004	27.00	27.00

VI. Projected Payments to Fund [2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.18	0.62	3.93	6.02	7.96
Charges/Interest	0.00	0.01	0.17	0.16	0.14
Total	0.18	0.62	4.10	6.17	8.10

[1]Formerly PRGF.
[2]When a member has overdue financial obligations outstanding for more than three months the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	July 2000
Assistance committed	
by all creditors (US$ million)[1]	265.00
Of which: IMF assistance (US$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	March 2003
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	18.40
Interim assistance	11.04
Completion point balance	7.36
Additional disbursement of interest income[2]	1.66
Total disbursements	**20.06**

[1]Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

[2]Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR million)[1]	36.06
Financed by: MDRI Trust	34.11
Remaining HIPC resources	1.95

II. Debt Relief by Facility (SDR million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	36.06	36.06

[1]The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

IX. Implementation of Post-Catastrophe Debt Relief (PCDR):

Not Applicable.

X. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework needed nonetheless to be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. Such committee was established after the completion of the assessment following the Institutional Reform of the WAMU and the BCEAO. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

XI. Exchange Arrangement:

Benin is a member of the WAEMU and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. The exchange system common to all member countries of the WAEMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XII. Article IV Consultations:

The last completed Article IV consultation discussions were held in Cotonou during March 10–26, 2010. The staff report (Country Report No. 10/195; 5/27/10) and selected issues paper were discussed by the Executive Board, and the 2010 Article IV consultation concluded, on June 14, 2010.

XIII. ROSC Assessment:

A Fiscal Affairs Department (FAD) mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be taken quickly to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report No. 02/217). In 2009, the World Bank conducted an Accounting and Auditing ROSC, for which the report was published on April 18, 2009.

XIV. Technical Assistance for the Last Five Years:

A. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	June 16–30, 2008	Conducting a diagnostic of the tax system and preparing a tax policy reform.
FAD	Technical assistance	June 15–26, 2009	Assessing progress in modernizing the tax and customs administration and identifying reform priorities.
MCM	Technical assistance	September 10–24, 2010	Conducting a crisis resolution and financial systems vulnerability assessment.
FAD	Technical assistance	December 1–12, 2011	Improving the tax system and reviewing the modernization reforms of the tax and customs administrations.
MCM	Technical assistance	December 8–21, 2011	Conducting a diagnostic of the financial system.

B. AFRITAC WEST

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	2007	Customs Administration
FAD	Technical assistance	2007	Public Expenditure Management
FAD	Technical assistance	2007, 2008	Tax Administration
FAD	Technical Assistance	2009	Public Expenditure Management
FAD	Technical Assistance	2010	Tax administration
FAD	Technical Assistance	2010	Customs Administration
FAD	Technical Assistance	2010	Tax administration
FAD	Technical assistance	2011	Customs Administration
FAD	Technical assistance	2011	Customs Administration (2)
FAD	Technical assistance	2011	Customs Administration (3)
FAD	Technical Assistance	2011	Tax Administration
FAD	Technical assistance	2011	Public Expenditure Management
FAD	Technical Assistance	2012	Public Expenditure Management
FAD	Technical Assistance	2012	Tax Administration
MCM	Technical assistance	2007	Bank Supervision and Regulation
MCM	Technical assistance	2007, 2008	Public Debt and Debt Sustainability
MCM	Technical assistance	2010	Public Debt and Debt Sustainability
MCM	Technical assistance	2010	Bank Supervision and Regulation

MCM	Technical assistance	2011	Public Debt and Debt Sustainability
MCM	Technical assistance	2012	Public Debt and Debt Sustainability
STA	Technical assistance	2007, 2008	Multisector Statistics
STA	Technical assistance	2009	National Accounts Statistics
STA	Technical assistance	2008	Real Sector Statistics
STA	Technical Assistance	2009	National Accounts Statistics
STA	Technical assistance	2010	Government Finance Statistics
STA	Technical Assistance	2011	Government Finance Statistics
STA	Technical Assistance	2011	Real Sector Statistics
STA	Technical Assistance	2011	Real Sector Statistics (2)
STA	Technical Assistance	2012	Real Sector Statistics
STA	Technical Assistance	2012	Real Sector Statistics (2)
STA	Technical Assistance	2012	Government Finance Statistics
STA	Technical Assistance	2012	Real Sector Statistics (3)

XV. Resident Representative:

Mr. Farah assumed his position in Cotonou as Resident Representative on June 20, 2011.

II. JOINT WORLD BANK-IMF WORK PROGRAM, 2012–13

Title	Products	Timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in the next 12 months	1. Poverty/Gender Assessment		December 2012
	2. PRSC-8		Jan/Feb 2012
	3. Technical assistance in HR and payroll system integration	Semi-annually	Ongoing
	4. Customs performance assessment	November 2012	November 2012
	5. Port Operations Policy Note	October 2012	November 2012
	6. Tax policy Note	February 2012	May 2013
	7. Investment Policy Note	March 2012	May 2013
IMF work program in the next 12 months	1. Fourth ECF review and Article IV consultation	July 2012	October 2012
	2. Fifth ECF review	January 2013	March 2013
B. Requests for work program inputs			
Fund request to Bank	Draft technical assistance report on establishing an energy regulatory framework		September 2012
Bank request to Fund	Regular updates on macroeconomic performance and assessment letters for PRSC operations		Ongoing
C. Agreement on joint products and missions			
Joint products in the next 12 months	Debt Sustainability Analysis	July 2012	October 2012

III. STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist in the areas of national accounts, public finance, monetary statistics, financial sector prudential indicators, and balance of payments.
Real sector statistics: Inadequate resources and weaknesses in data documentation and methodology hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participates in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the 1993 SNA. Progress has been slow and the accounts for a few years still need to be converted. The West AFRITAC missions in 2008, 2009, 2010 and 2011 sought to accelerate the process and support the compilation of the revised accounts. A statistical business register and an industrial production index are being developed, but the implementation has been slower than expected. Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been revised to be consistent with other WAEMU countries with the assistance of AFRISTAT.
Government finance statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities report budgetary central government's "statement of sources and uses of cash" for publication in the Government Finance Statistics Yearbook, one year after the reference year. The October 2008 and July 2009 STA-GFS missions found that the authorities had yet to compile general government GFS to broaden coverage of nonmarket activities controlled by the government, disseminate the GFS within one quarter after the reference quarter, and present the other major GFS reports to facilitate linkages to other macroeconomic datasets (e.g., the balance sheet).
Monetary and financial statistics: Monetary and financial statistics, compiled and disseminated by the BCEAO, are broadly adequate and their institutional coverage is comprehensive, but timeliness of reporting is weak. Accuracy is somewhat hampered by the use of 1990 sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country.
Balance of payments: External statistics are still affected by shortcomings that prevent an accurate and timely assessment of current account transactions and capital and financial flows. Recent improvements in applying the guidelines of the Balance of Payments Manual, Fifth Edition, have not solved the problem. In November 2004, a STA technical assistance mission noted that the human resources devoted to balance of payments statistics by the national agency of the BCEAO were inadequate, and highlighted a series of methodological problems including the use of untested hypotheses and reference bases, the limited coverage of direct investment, and shortcomings in the compilation of net external assets and international investment position. Balance of payments statistics are also disseminated with a lag of almost one year and the international investment position data with a lag of 18 months. Some progress has been achieved in the reconciliation of regional trade data with those of regional partners, and the compilation of

trade statistics has been enhanced by the installation of the ASYCUDA++ customs computer system in all main border customs houses, the port, the airport, and some regional offices. Progress is also needed in improving contacts with reporting bodies and enhancing the management of human and technical resources. Financial account data can be improved by extending the coverage of foreign assets of the private non-banking sector, expanding the surveys of residents' foreign assets, and using other data source, such as Bank of International Settlements (BIS) statistics. The BCEAO has updated the compilation of commercial bank data on payments involving nonresidents; however, these data are not used to produce annual balance of payments statistics. External debt data are broadly adequate for surveillance, but are comprehensive only for public and publicly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissement* (CAA), which is responsible for signing international loan agreements and servicing the government's external debt obligations. The CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis, but regular statements are not received from creditors.	
B. Data Standards and Quality	
Benin commenced its participation in the General Data Dissemination System (GDDS) in 2001; but since then has not updated much of its metadata. Measures have been taken to re-launch this initiative in 2013.	An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001.
C. Reporting to STA	
Standardized Report Forms (in line with the Monetary and Financial Statistical Manual) are still not regularly used to report monetary data to the IMF. Annual data for balance of payments and international investment position are reported to STA with a lag of about one and a half years.	

Benin: Table of Common Indicators Required for Surveillance

(As of September 30, 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	6/12	8/12	M	M	M
Reserve/Base Money	6/12	8/12	M	M	M
Broad Money	6/11	8/12	M	M	M
Central Bank Balance Sheet	6/11	8/12	M	M	M
Consolidated Balance Sheet of the Banking System	6/11	8/12	M	M	M
Interest Rates[2]	7/12	9/12	M	M	M
Consumer Price Index	8/12	9/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	6/12	7/12	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/12	7/12	S	S	NA
External Current Account Balance	6/11	7/12	S	S	A
Exports and Imports of Goods and Services	2011	5/12	A	Q	A
GDP/GNP	2011	4/12	A	A	A
Gross External Debt	6/12	7/12	A	I	A
International Investment Position[6]	2008	9/10	A	A	A

[1]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability position vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (S); Semiannually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/132
FOR IMMEDIATE RELEASE
November 26, 2012

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with Benin

On November 9, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Benin.[1] The Board also approved the fourth review under the Extended Credit Facility (ECF) arrangement during the same meeting (See Press Release No. 12/425).

Background

Benin has consolidated and reinforced recent gains in macroeconomic management, but significant challenges remain in accelerating economic growth and reducing poverty. Prudent fiscal policy has kept fiscal deficits at manageable levels and has averaged a basic primary surplus over the period 2010–June 2012. This policy, combined with the benefits of the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Reduction Initiatives (MDRI), has kept public debt low, at about 32 percent of GDP. The external current account deficit has remained broadly stable, and the balance of payments deficit was about 5 percent of GDP in 2011.

Real growth rebounded after the 2010 floods, to about 3½ percent in 2011 and is anticipated to maintain this rate through 2012. Authorities have made some progress on structural reforms and significantly improved disbursements of priority social expenditure. Challenges remain in achieving public investment targets, infrastructure development, and promotion of private sector activity.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Appropriate monetary policy by the Central Bank of West African States (BCEAO) has helped keep inflation low at about 2½ percent in 2010-11. A significant increase in fuel prices imported from Nigeria in January 2012 resulted in a jump in the consumer price index, but does not appear to have a persistent inflationary impact. The recent spike in international food prices has not had a notable impact in Benin, given the country's ability to supply basic staples with domestic production. Inflation is projected to remain below 3 percent in the medium term.

Recent events at the port of Cotonou and in the cotton sector have added uncertainty to the current economic environment. The government took more direct operational control of the cotton sector this spring because of governance concerns and anticipates an improved harvest this year. Difficulties at the port with reform implementation, and governance concerns led to the suspension of the import-verification program.

Benin's commercial banking system is generally liquid. Provision of banking services is supplemented by a large number of microfinance institutions, which account for 9½ percent of total financial sector loans and supply services to households and microenterprises. To further develop and strengthen the financial sector, better-defined property rights and more reliable contract enforcement are priorities, together with improved supervision of banks and microfinance institutions.

Executive Board Assessment

Executive Directors commended the authorities for their prudent macroeconomic management. Directors noted that, while Benin's medium term economic outlook is favorable, it remains vulnerable to regional and global developments. To address the challenges ahead and to consolidate the gains thus far, they underscored the importance of continued commitment to sound policies. Timely implementation of structural reforms will be necessary to boost growth prospects and reduce poverty.

Directors commended the authorities' overall prudent fiscal conduct. They welcomed progress in revenue mobilization and improvements in expenditure management, which allowed the authorities to meet their fiscal targets and undertake poverty related spending. These advances, if maintained, will provide space for needed infrastructure investment and safeguard the low level of debt. In this context, Directors underscored that wage policy should remain consistent with medium term fiscal objectives. Directors also agreed that broad based customs reforms will strengthen revenue collection. Accordingly, they called for a well designed reimplementation of the import verification program.

Directors welcomed the enhanced review of the financial system and stressed that continued efforts to strengthen financial sector stability are necessary to preserve a sound macroeconomic environment and accelerate growth. They underscored the need to intensify financial sector oversight and adopt measures to broaden access to financial services. In particular, strengthening supervision of microfinancial institutions should be a priority.

Directors emphasized that structural reforms remain critical for improving competitiveness and inclusive growth. They encouraged the authorities to make further efforts to enhance the business environment, including through implementation of a revised framework for the cotton sector, support private sector development, and address the infrastructure gap.

Benin: Selected Economic Indicators, 2009–12

	2009	2010	2011 Est.	2012 Proj.
(Annual percentage change)				
Income and Prices				
GDP at constant prices	2.7	2.6	3.5	3.5
Consumer price index (average)	0.9	2.1	2.7	6.6
Real effective exchange rate (minus = depreciation)	-0.7	-6.5	-0.7	…
Money and credit				
Net domestic assets [1]	7.1	5.2	9.8	10.4
Broad money (M2)	6.2	11.6	9.0	7.4
Credit to the nongovernment sector [1]	5.9	5.3	5.7	9.3
Net claims on central government [1]	6.6	-0.9	6.9	1.2
(Percent of GDP)				
Investment and Saving				
Gross investment	20.9	17.6	18.7	19.1
Gross national saving	11.9	10.3	8.7	9.6
External sector				
Current account balance (excl. grants)	-11.2	-8.2	-10.3	-10.3
Overall balance of payments	-1.6	0.8	-4.9	-1.8
Central government finance				
Total revenue	18.5	18.6	17.6	18.9
Expenditure and net lending	26.0	21.6	21.9	22.5
Primary balance [2]	-7.0	-2.5	-3.9	-3.0
Overall fiscal deficit (payment order basis, excl. grants)	-7.5	-3.1	-4.3	-3.6

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Change in percent of beginning-of-period broad money.
[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/425
FOR IMMEDIATE RELEASE
November 9, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under ECF Arrangement for Benin and Approves US$16.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of the Extended Credit Facility arrangement for Benin and approved the immediate disbursement of SDR 10.61 million (about US$16.2 million). The Executive Board also concluded the 2012 Article IV consultation with Benin, which will be covered in a separate Public Information Notice in due course. Today's decision will bring to SDR 53.06 million (about US$81.1 million) the total disbursed under the SDR 74.28 million Arrangement, which was approved in June 2010 (see Press Release No. 10/243).

At the conclusion of the Executive Board's discussions, Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Benin has made significant progress in consolidating macroeconomic stability under the Fund-supported program. Economic growth is projected to maintain its pace, inflation remains in check, and the external current account deficit has been broadly stable.

"All quantitative performance criteria and targets were met, but earlier reforms to the cotton sector and a key component of the customs reform program have been suspended.

"Prudent fiscal policy has kept fiscal deficits at manageable levels and is projected to yield a basic primary surplus in 2012. Public debt remains low at about 32 percent of GDP. However, looking forward, it will be important to contain current expenditures, including on public sector wages, to provide space for infrastructure spending and meet medium-term fiscal objectives. Broad based-customs reforms will strengthen revenue collection. In this context, a well-designed reimplementation of the import-verification program will be important going forward.

"Improvements to the business climate and public investment will be necessary to boost external competitiveness and economic growth. Further progress on structural reforms, including implementation of a revised framework for the cotton sector, remains thus critical."

Statement by Ngueto TirainaYambaye, First Alternate Executive Director for Benin
Nevember 9, 2012

On behalf on my Beninese authorities, I would like to express my appreciation to Management and Staff for the open and constructive discussions with my authorities as well as for the technical and financial support they are receiving. Despite difficult circumstances, my authorities have continued to implement steadfastly the economic and financial program under the ECF. Performance under the Fund-supported program has been satisfactory with all quantitative performance criteria and targets at end-March and end-June 2012 being met. My authorities remain committed to the medium-term objectives of the program and would like to request conclusion of the fourth review under the ECF arrangement.

Recent developments

After two years of economic slowdown, activity in Benin accelerated in 2011 as growth reached 3.5% up from 2.6% in 2010. Economic growth was driven by a revival in agriculture, notably higher production of cotton, and in construction and public works activity. It is worth recalling that the economy experienced several shocks in 2011 that hindered the achievement of higher growth. Headline inflation rate remained under control at 2.7 percent below the 3-percent convergence criterion of the West African Economic and Monetary Union (WAEMU). The current account deficit widened in 2011, from 8.2 percent in 2010 to 10.3 percent in 2011 due to a sharp drop in cotton exports. Improved capital account balance and foreign investment contributed to limit the overall balance of payments deficit to 4.9 percent of GDP. At end-2011, the risk of a debt crisis remains low, as total public debt ratio stood at about 30 percent of GDP thanks to a prudent debt management policy.

Activity in 2012 has been adversely affected by the petroleum price shock in the informal sector in January 2012, following the reduction of petroleum subsidies in Nigeria. As staff explain, higher prices of informal fuel spread to transportation and food prices. Headline inflation shot up subsequently and stood at 6 percent in January-July 2012. It is expected to remain around that level through year-end. Growth projections for 2012 had to be revised downward to 3.5 percent from 4.3 percent initially.

My authorities have continued to maintain a strong **fiscal discipline** in 2012. Expenditures were kept within the program envelope. Furthermore, the social spending targets were met thanks to the implementation of a better monitoring system. Revenues largely exceeded targets thanks notably to improved tax and customs administration and the sale of a 3G mobile phone license. As a result, the basic primary balance in the first quarter and the first half largely exceeded their respective targets by more than 1.5 percentage point of GDP, thereby strengthening fiscal buffers. It is worth stressing that the primary balance targets were still met when receipts from the mobile phone license are excluded. My authorities reviewed all tax and customs exemptions and have adopted an action plan for implementing the recommendations of the review. There has been little progress on the modernization of the tax and customs administration due to delays in external assistance disbursements by donors. In order to avoid any further delays in the implementation of these reforms, the government will fund related costs out of its 2013 budget.

In the **financial sector**, the banking sector remains well-capitalized, with ten out of the 12 banks in Benin having complied with the regional decision to increase minimum capital. One of the noncompliant banks was placed under provisional administration and options are being explored regarding the handling of the other nonconforming bank. Earlier this year in March 2012, my authorities closed one bank that lost its license in 2009 and was under provisional administration since then. The regulation and supervision framework was strengthened with the adoption of the two legislations on the decentralized financial structures and banking regulation by the National Assembly in January 2012. As a result, all decentralized financial structures, notably microfinance institutions are now under the supervision of the central bank and the regional banking commission. My Beninese authorities will continue collaboration with regional institutions for the restructuring of two banks in financial distress and will monitor closely the microfinance institutions in difficulty.

The implementation of the **reform agenda** continued to advance. In particular, progress has been made toward the adoption of the civil service reform strategy with the completion of all the preparatory studies, notably that on the remuneration of civil servants in July 2012. The reform strategy is now expected to be adopted by year-end. Progress is being made with respect to public workforce management with the finalization of the pilot phase of database of civil servants. With the assistance of the World Bank, this database will be extended from the Ministry of Economy and Finance to the Ministry of Labor and Civil Service. As regards the pension reform, the related draft law was transmitted to the National Assembly in September 2012.

In monitoring and evaluating past reforms, my authorities took important decisions to address weaknesses identified in their implementations. In particular, they decided to suspend the framework agreement governing the **cotton sector** in March 2012 and took over the management of the sector for the 2012/2013 campaign. This decision was motivated by reports of operational failures in the implementation of this framework, which did little to promote the development of cotton production. My authorities intend, in consultation with the private sector, to develop by the beginning of the 2014/2015 campaign a new framework that will promote an integrated development of the cotton sector by production zone, with the objective of effective liberalization, enhanced competitiveness and greater governance transparency. An innovation will be the establishment of a regulatory authority to ensure the sector functions according to the principles set in the new framework. In this framework, the government will continue to provide critical services in areas such as organizing and providing support to producers, monitoring the provision of production inputs and gathering statistical information. It is worth indicating that there is no direct fiscal cost of the government’s involvement in the cotton sector, as the costs related to cotton campaign is financed through the banking system, whose loans are being repaid with the proceeds of the harvest.

My authorities also suspended in May 2012 the **import-verification program** (IVP) at the Port of Cotonou. As indicated in the Letter of Intent and explained in the report, the decision was driven by low technical performance, excessive fees for scanning and tracking services, and delays in container processing since the inception of this program; which led to a significant loss of competitiveness for the Port of Cotonou, as evidenced by the greater preference by shippers and importers to unload and process their cargo at neighboring ports. My authorities will adopt new modalities for implementing selected IVP services following consultations with the private sector in Benin and neighboring countries making use of the port. It is worth stressing that the one-stop window at the port introduced last year continues to operate effectively and revenue performance has not been affected by the suspension of the IVP.

Program for the remainder of 2012 and for 2013

My authorities will continue the implementation of their economic and financial program to achieve their macroeconomic stability and sustainable development objectives, consistent with the growth and poverty reduction strategy updated last year. They remain committed to the macroeconomic framework supported by the Extended Credit Facility arrangement.

As staff rightly recalls, Benin is a net food and fuel importer and cotton exports represent a large share of the country's total exports, which makes it vulnerable to international commodity price volatility and global demand developments. In addition, Benin has a long and close trading relationship with Nigeria, which subjects its economy to major economic developments in its neighbor. Assuming an improved external environment and continued implementation of reforms envisaged in the program, growth rate is projected to accelerate slightly to 3.8 percent in 2013, and 4.5 percent over the medium-term driven by higher agricultural production and infrastructure construction. Inflation should drop below the regional convergence criterion and current account deficit in 2012 and 2013 should narrow as a result of higher volume of cotton exports.

My authorities will pursue a prudent fiscal policy with the objective of preserving fiscal sustainability and strengthening fiscal buffers. They will continue to maintain discipline with respect to current expenditure and the wage bill in particular while accelerating public investment execution. Priority social expenditure will be monitored closely to reach the related end-2012 program target. They will submit a draft 2013 budget that is consistent with the Fund-supported program. They are committed to implement the recommendations of the December 2011 IMF technical assistance mission. Progress in the modernization of IT systems at the customs and tax administrations together with strengthened cooperation between these two administrations are expected to yield higher revenues.

Next year should mark the completion of many of the abovementioned structural reforms. In addition, my authorities intend to pursue reforms to improve the business climate, upgrade infrastructure and diversify the economy. In order to further strengthen its financial system supervision framework, my authorities will also ensure the promulgation of three regional legislations on banking regulation, combating the financing of terrorism and sanctions for violations involving checks, bank cards and other electronic payment methods.

Conclusion

To conclude, performance under the ECF at end-March and end-June 2012 has been satisfactory. Going forward, my authorities remain committed to maintaining sound macroeconomic policies and pursuing the implementation of critical structural reforms. My authorities continue to count on donors' support and technical and financial assistance in this regard. As in the past, my authorities will take any further measure that may become appropriate, in consultation with the Fund, for achieving program objectives. In light of the program performance and the continued commitment to the program, I will appreciate the Executive Board's support of the completion of the fourth review under the ECF and Article IV consultations.