

Benin: Fourth Review Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin

In the context of the Fourth Review Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the fourth review under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **December 18, 2002**, 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 February 24, 2003.** 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.
- a Press Release summarizing the **views of the Executive Board as expressed during its March 24, 2003 discussion** of the staff report that completed the review.
- a statement by the Executive Director for Benin.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Benin*
Technical Memorandum of Understanding*
Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document
Joint Staff Assessment of the Poverty Reduction Strategy Paper
Poverty Reduction Strategy Paper

*May also be included in the Staff Report

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

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BENIN

Fourth Review Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Fiscal, Legal, Policy Development and Review,
Statistics, and Treasurer's Departments)

Approved by Jean A.P. Clément and Shigeo Kashiwagi

February 24, 2003

- Discussions for the fourth review and third-year program under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou during December 4-18, 2002.
- The third review under the PRGF arrangement was concluded on July 15, 2002. Benin's outstanding use of Fund resources amounted to SDR 57.9 million (93.6 percent of quota) at end-December 2002. Benin has accepted the obligation of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions, subject to approval under Article VIII.
- The Beninese representatives comprised Mr. Amoussou, Minister of State in Charge of Government Coordination and Planning; Mr. Laourou, Minister of Finance and Economy; Mr. Daouda, National Director of the Central Bank of West African States (BCEAO); and other senior government officials. The mission was received by President Kérékou.
- The staff members were Mr. Ewencyk (head), Mr. Harmsen (Resident Representative), Mr. Nsengiyumva, Mr. Yulek, Ms. Yakadina (all AFR), and Ms. Kebet (Staff Assistant, AFR). Ms. Gaye and Ms. Leroy from the World Bank participated in the discussions.
- The authorities have agreed to the publication of the staff report, the letter of intent, the memorandum on economic and financial policies, and the technical memorandum of understanding.

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EXECUTIVE SUMMARY

Background and recent developments

- **On the political front**, President Kérékou was reelected for a second term in March 2001. The absence of a government majority in the National Assembly has resulted in delays in the adoption of economic reforms. Municipal elections took place in December 2002; they will pave the way for the implementation of a devolution policy. Legislative elections are scheduled for March 2003.
- **Macroeconomic performance remained broadly in line with the objectives of the PRGF-supported program in 2002. All performance criteria for end-September 2002 were met, and the four structural benchmarks were observed by end-December 2002.** However, spending on health and education remained below quantitative benchmarks, and the civil service reform continued to stall.
- **The authorities finalized the poverty reduction strategy for 2003-05**, which aims at achieving strong economic growth and reducing poverty, while maintaining financial stability. **They also met all the other enhanced HIPC Initiative completion point targets.**

Program for 2003

- **In accordance with the baseline macroeconomic framework of the PRSP, real GDP is projected to grow by 5.6 percent in 2003**, while inflation should remain subdued (below 3 percent). The external current account deficit is expected to narrow to 7 percent of GDP, owing to an improvement in the terms of trade.
- **The budget passed by the National Assembly reflects the objectives of the PRSP.** Fiscal consolidation will continue. Revenue mobilization will be strengthened through the enhancement of customs administration. On the expenditure side, nonpriority outlays have been strictly limited, and the strengthening of public expenditure management will be pursued. The overall deficit is to be contained at 4½ percent of GDP.
- **The structural reform program** focuses on the divestiture of public utilities, the pursuit of reform in the cotton sector, the reform of the civil service, and the furthering of good governance.

Issues raised in the staff appraisal

- **The fiscal stance of the budget for 2003 remains appropriate.** The fiscal targets will be achieved through continuing efforts to improve tax performance, rein in nonpriority spending, and improve the level of execution of expenditure in the priority sectors.

- **Implementation of the more ambitious, alternative scenario of the PRSP, with higher expenditure in the priority sectors**, will start only when concessional external financing consistent with the objective of debt sustainability has been secured and the absorption capacity in social spending has improved.
- **Implementation of the structural reform agenda through a timely and transparent process is essential** to achieve the objectives of the PRSP.
- The debt sustainability analysis prepared for the enhanced HIPC Initiative completion point has stressed the importance of following **prudent debt-management policies**. Accordingly, the authorities are committed to limiting the overall government borrowing requirement, with the support of the new debt committee.

I. INTRODUCTION

1. The Executive Board concluded the first review under the Poverty Reduction and Growth Facility (PRGF) arrangement on January 8, 2001 (EBS/00/288; 12/27/00).¹ The second review under the PRGF arrangement was concluded and the second-year program presented to the Board on November 2, 2001 (EBS/01/176; 10/18/01). The third review under the PRGF arrangement was concluded on July 15, 2002 (EBS/02/119; 07/01/02). The fifth disbursement under the PRGF arrangement (SDR 4.04 million), which is contingent upon completion of the fourth review, will raise Benin's outstanding use of Fund resources to 83.8 percent of quota at the end of June 2003 (Table 2).

2. In the attached memorandum on economic and financial policies (MEFP) (Appendix I, Annex I), the authorities review the performance under the program and describe the policies that will be implemented in the period ahead. The performance criteria and benchmarks for 2003 are set out in the technical memorandum of understanding (Appendix I, Annex II).

3. **The World Bank has remained extensively involved in Benin.** A World Bank mission was in Cotonou at the same time as the Fund mission to jointly review the budget for 2003, the poverty reduction strategy paper (PRSP), and other HIPC Initiative completion point conditions; the World Bank staff also followed up on the implementation of the public expenditure reforms agreed upon under the Public Expenditure Reform Adjustment Credit (PERAC) approved in March 2001 and the supplemental credit approved in October 2002. The World Bank is assisting the authorities in the reform of the cotton sector in the context of a sectoral project approved in January 2002. The World Bank has also initiated the preparation of a Poverty Reduction Support Credit (PRSC) to support policies laid out in the PRSP. Benin's relations with the Fund and the World Bank are summarized in Appendices II and III, respectively.

¹ The three-year PRGF arrangement, in an amount equivalent to SDR 27 million (43.6 percent of quota), was approved by the Executive Board on July 17, 2000 (EBS/00/130; 7/10/00). At that time, the Executive Board agreed that Benin had reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, and was eligible and qualified for assistance under the enhanced HIPC Initiative. An extension of the PRGF arrangement to March 31, 2004 was approved by the Executive Board on July 15, 2002. At the same time, the Board approved additional interim assistance for Benin under the enhanced HIPC Initiative to cover part of debt-service payments to the Fund falling due from July 15, 2002 to June 30, 2003. Interim assistance granted by the Fund amounts to the equivalent of SDR 1.8 million in 2000, SDR 3.68 million in 2001, and SDR 3.66 million in 2002.

4. **Benin's economic database is comprehensive but remains weak**, particularly regarding national accounts and the balance of payments. Important methodological issues also remain to be addressed on poverty data (Appendix IV).

5. **On the political front**, President Kérékou was reelected for a second term in March 2001. The absence of a government majority in the National Assembly has resulted in delays in the adoption of economic reforms. Municipal elections took place in December 2002; they will pave the way for the implementation of a devolution policy. Legislative elections are scheduled for end-March 2003.

II. RECENT ECONOMIC PERFORMANCE

6. **Benin's macroeconomic performance** under the PRGF-supported program **remained broadly in line with the program objectives in 2002** (Table 3; and Figures 1 and 2). Real GDP is estimated to have grown by more than programmed (5.8 percent, compared with 5.3 percent), as cotton production increased by 23 percent relative to the previous crop season. Annual average inflation was contained at below 3 percent. The external current account deficit is estimated to have widened as programmed, because of a sharp drop in the world cotton price. The real effective exchange rate appreciated by about 4.5 percent during the first ten months of 2002, owing mainly to the strengthening of the euro against the U.S. dollar (Figure 3).² The situation of the financial sector, including that of the cooperative and mutual credit institutions, improved.

7. Regarding **performance under the program** (Table 15), all the quantitative performance criteria for end-September 2002 were met, reflecting a satisfactory overall fiscal performance. The four structural benchmarks were also met by end-December 2002. Spending on health and education, however, remained below the quantitative benchmark, owing to a lack of implementation capacity. The quantitative benchmark on the wage bill was also slightly exceeded in September, but it was met for the year as a whole.

A. Macroeconomic Policies and Budget Reform

8. **Fiscal performance in 2002 was broadly satisfactory** (Table 5). Boosted by the implementation of action plans to improve tax collection by the customs and internal tax administrations, total revenue, at 17.1 percent of GDP, exceeded program targets by ½ of 1 percentage point of GDP. Total expenditure, at 20.7 percent of GDP, was 1 percentage point of GDP lower than the projected level, reflecting the low level of investment outlays resulting from weaknesses in implementation capacity.³ Priority outlays for education and

² However, given the relatively low inflation recorded during the past few years, the gains in external competitiveness achieved as a result of the 1994 devaluation appear to have been largely preserved.

³ Investment expenditure was also affected by the late approval of the budget and by protracted civil strikes during the first quarter of 2002.

health remained below targets, while other current expenditure slightly exceeded program targets.⁴ The overall fiscal deficit, on a payment order basis and excluding grants, was held to 3.7 percent of GDP (1½ percentage points below target). As a result, notwithstanding the smaller-than-expected disbursement of foreign assistance, domestic financing of the budget remained about nil, as targeted.⁵

9. **The authorities took measures to strengthen budget execution.** In particular, there were further improvements in the implementation of the new computerized budget management system (SIGFIP), which had encountered difficulties in 2001 that slowed budget execution and led the treasury to use exceptional procedures to pay urgent expenses. Following the completion of the evaluation of the operations of the cash advance accounts (*comptes de régisseurs*) and the adoption of an action plan to reduce the number of such accounts, 300 accounts, out of a total of 867, were closed by the end of 2002. The authorities also completed work to balance the accounts of the treasury and produce monthly treasury accounts within one month.

10. Following three years of strong expansion, broad money contracted by 7½ percent during the first nine months of 2002 (Table 6).⁶ This contraction was underpinned by a deterioration in the net foreign assets of the central bank, which reflected delays in cotton exports, as well as in the disbursement of foreign assistance to the government.⁷ Domestic credit stagnated during the first nine months of 2002, as the buildup of government deposits (at end-September 2002, net government deposits reached the equivalent of 13 percent of broad money) was compensated for by a moderate increase in credit to the nongovernment

⁴ Social expenditure suffered from the late initiation of investment outlays. Targets for other expenditure were exceeded by 0.3 percent of GDP, owing mostly to the 20 percent increase in electricity tariffs effected in mid-2002.

⁵ Disbursement of budgetary support was smaller than expected because of the late finalization of the PRSP and delays in ratification of loan agreements by the National Assembly.

⁶ The measurement of currency in circulation in individual member countries of the Central Bank of West African States (BCEAO) is subject to large uncertainties, arising from long delays in the sorting of the banknotes. This leads to frequent changes, sometimes very large, in the measurement of currency in circulation and gross foreign assets of the BCEAO.

⁷ For the year as a whole, the decline in the net foreign assets of the central bank was limited to 4 percent (0.8 percent of GDP), as cotton exports were completed but not yet fully settled by year-end.

sector.⁸ Despite the easing in interest rates in industrialized countries, the regional central bank has kept its key nominal interest rates unchanged since June 2001.

B. Structural Reform Implementation

11. **There was progress in the implementation of structural reforms in 2002.** As mentioned above, the structural benchmarks for end-July, end-August, and end-September 2002 were completed, although with delays (Table 15).⁹ A national strategy to fight corruption was put in place in July. In the **cotton sector, the reform process** begun in the early 1990s with the support of the World Bank and bilateral donors **proceeded satisfactorily** (Box 1). A strategy for the privatization of the state-owned ginning company (SONAPRA) was adopted in May 2002. In early October, the producer price for the 2002/03 crop season was set at CFAF 190 per kilogram (CFAF 10 lower than last year), after the government gave a clear indication that it would not grant price subsidies.¹⁰ Actions were also taken regarding the divestiture program for the public utility enterprises (MEFP, para. 14).

12. However, **civil service reform continued to stall**, as the National Assembly did not vote on the legislation regarding the new compensation system for the civil service. In the circumstances, the authorities decided that, starting in January 2003, new recruitment to replace retiring civil servants would be based on fixed-term contracts, with a merit-based promotion system applied to these contractual employees (MEFP, para. 16).

13. **The financial health of the banking sector improved** in 2002. The government continued its efforts to ensure that banks met the Regional Banking Commission's prudential ratios. Commercial banks were required, from January 1, 2002 onward, to comply with the new capital adequacy ratio of 8 percent, in line with international standards. As of end-September 2002, four of the six commercial banks, representing 81 percent of total bank

⁸ Increase in bank lending mostly benefited the services sector—which at end-September 2002 amounted to about 80 percent of outstanding bank credit—as cotton-ginning enterprises increasingly resorted to trade credit from their foreign customers.

⁹ The benchmarks were as follows: the adoption of a recovery and privatization plan for the state-controlled bank; the adoption of a plan to recover arrears on tax and dividend payments from the petroleum distribution company (SONACOP); the adoption of a plan for the reduction of cash advance accounts; and the adoption of a plan to eliminate the deficit of the electricity company. They were completed with delays, ranging from two to five months, caused by weak administrative capacity and lengthy procedures.

¹⁰ During the previous crop year (2001/02), in the context of a sharp drop in the world price of cotton, the authorities decided, as a one-time exceptional intervention, to help sustain the farm gate price at the level agreed before the start of the campaign—CFAF 200 per kilogram—by providing a price subsidy to farmers for a total amount of CFAF 18.7 billion.

loans, met the criteria. The two undercapitalized banks, including the Continental Bank, which is scheduled for privatization, are under close surveillance by the Regional Banking Commission. The divestiture strategy for the Continental Bank was adopted in December 2002, together with a recovery plan including enhanced efforts to collect delinquent claims. The plans to rehabilitate microfinance institutions were also pursued successfully.¹¹

14. **Benin continued to be one of the most compliant members of the West African Economic and Monetary Union (WAEMU) regarding the Regional Convergence, Stability, Growth, and Solidarity Pact.**¹² Benin met all the WAEMU primary convergence criteria in 2002 (Box 2). Regarding the external trade regime, the authorities took the necessary steps for compliance with the regional nomenclature in the context of the WAEMU common trade policy.¹³

III. MEDIUM-TERM STRATEGY

15. **The authorities finalized the full PRSP covering the period 2003-05 and submitted it to the development partners in early January 2003** (Box 3). They have also met all the other completion point triggers.¹⁴ The PRSP was prepared via a broad participatory process involving the country's various social groups and development partners. It provides a diagnosis of poverty in Benin and presents the national priorities and sectoral objectives and policies of the poverty reduction strategy (Box 4). The PRSP also presents a mechanism for monitoring and assessing implementation of the strategy, a medium-term expenditure framework (MTEF), and the measures and actions envisaged over the period 2003-05, with a timetable for their implementation. The authorities indicated that

¹¹The microfinance sector is large in Benin. At end-2002, loans granted by the sector represented about 15 percent of bank credit to the economy.

¹² The pact, adopted in December 1999, reinforced the system of mutual surveillance through the use of a new set of relevant criteria to support the common pegged exchange rate regime and boost the regional reform agenda.

¹³ The common external tariff (CET), which was implemented on January 1, 2000, has established four rates (0, 5, 10, and 20 percent) and a uniform statistical duty of 1 percent, while dismantling internal tariff barriers. There are no formal nontariff barriers. Customs revenue in Benin was not adversely affected by the introduction of the CET, which, in fact, increased the average tariff rate (from 9 percent in 1999 to 12 percent in 2000), since some imports, especially consumer goods, were reclassified into a higher tariff category.

¹⁴ All conditions were met by end-December 2002, as described in Benin's enhanced HIPC completion point document (EBS/03/23). As stipulated in the enhanced HIPC Initiative decision point document (EBS/00/118; 6/26/00), a one-year implementation period of the PRSP is not a requirement for completion point assistance in view of Benin's track record and since it is a retroactive case.

the PRSP will remain the only reference framework for national policies and the participation of development partners in the implementation of the poverty reduction strategy.

16. **Benin's medium-term macroeconomic strategy aims at achieving strong economic growth and reducing poverty, while maintaining financial stability.** To this end, the authorities remain committed to accelerating structural reforms, strengthening the development of the country's human capital and basic infrastructure, creating an enabling environment for private sector development, and promoting the various sectors that are engines of growth. The key sectors driving growth over the medium term will be agriculture and services, which together account for about 70 percent of GDP.¹⁵ Consistent with the PRSP, structural reforms for the period 2003-05 would include the acceleration and the strengthening of (i) the public expenditure management reform, to improve the execution and transparency of public spending, and enhance the access of the poor to quality basic services; (ii) the cotton sector reform, in order to increase the efficiency of the sector and thus raise the share of farmers in export revenues; (iii) the divestiture program of public utilities, to improve service delivery; and (iv) the implementation of the anticorruption strategy.

17. **To achieve these objectives, the authorities would increase the level of priority expenditure, while improving the quality of public spending and maintaining financial viability.** In this regard, the PRSP includes two budgetary scenarios for the period 2003-05: first, a baseline scenario consistent with the PRGF-supported program approved in July 2002, on the basis of which the authorities drafted the budget 2003; and second, an alternative, more ambitious scenario, with higher expenditure in priority sectors, that the authorities would start implementing only when concessional external financing consistent with the objective of debt sustainability has been obtained and the absorption capacity in social spending has improved. The PRSP also presents the MTEF, as well as the overall macroeconomic framework, consistent with each of the two budgetary scenarios.

18. The baseline overall macroeconomic framework, which is consistent with the baseline budgetary scenario, is aiming at GDP growth rates of 5.6 percent in 2003 and 6.5 percent in 2004 and in 2005.¹⁶ Meanwhile, inflation would be kept at 2½ percent over the period. The external current account deficit is expected to gradually decrease from 8.2 percent of GDP in 2002 to 6.3 percent in 2005 (Table 3). Achievement of these objectives will require the continuation of a prudent monetary policy at the regional level and an appropriate fiscal stance over the period.

19. **The overall macroeconomic framework consistent with the more ambitious fiscal scenario foresees higher growth rates.** Government spending is projected to be 1.2 percentage points of GDP higher on average than in the baseline budgetary scenario and

¹⁵ As indicated in the Joint Staff Assessment (EBD/03/21), the proposed strategy for private sector-led growth needs to be further developed and made more coherent.

¹⁶ The population is projected to grow annually by 2.7 percent.

would focus on social and infrastructure investment. This increased spending is to be financed by greater external assistance. As a result, real GDP growth could reach 5.8 percent in 2003, 6.8 percent in 2004, and 7 percent in 2005. Although the annual inflation rate would be ½ of 1 percent higher than in the baseline macroeconomic framework, it would still remain consistent with the WAEMU convergence criteria, and external competitiveness would not significantly be affected. The external current account deficit would also be wider than in the baseline overall macroeconomic framework by 1.2 percent of GDP in 2003, 2.1 percent of GDP in 2004, and 1.5 percent of GDP in 2005.

20. **Downside risks to the projected medium-term prospects would remain large** because of the continued heavy dependence on cotton production and exports, and on trade with Nigeria. To alleviate the impact of these risks, reform efforts would aim at broadening the productive base and promoting private sector initiative and investment. In particular, the authorities would continue reorienting public expenditures toward the priority social sectors for human resource development and basic infrastructure, while accelerating structural reforms—especially the divestiture program and reform in the cotton sector—and strengthening financial institutions.

IV. THE PROGRAM FOR 2003

21. **The staff and the authorities reassessed the key program objectives for 2003 against the baseline macroeconomic framework of the PRSP.** In view of the international environment and the prospects for cotton production, the real GDP growth target for 2003 was revised downward from 6.0 to 5.6 percent. The average consumer price inflation is expected to be contained at 2.4 percent, and the external current account deficit is likely to hover around 7 percent of GDP, in line with the level originally programmed, as the fall in the volume of cotton exports would be compensated for by a projected increase in the world cotton price.

A. Fiscal Policy and Budget Reform

22. **The staff considers the 2003 budget recently adopted by the National Assembly as appropriate,** as it corresponds to the baseline scenario for government financial operations in the PRSP and reflects the government's poverty reduction objectives. The authorities intend to contain the overall fiscal deficit, on a commitment basis and excluding grants, at 4.6 percent of GDP, which is broadly in line with the originally programmed level of 4.5 percent. The overall financing gap is estimated at about 2 percent of GDP. This gap is expected to be covered by debt relief that will be obtained in the context of the enhanced

HIPC Initiative (1.1 percent of GDP), Fund assistance (0.3 percent of GDP), and already secured external budgetary assistance (0.6 percent of GDP).¹⁷

23. **The revenue target envisaged in the 2003 budget (17.1 percent of GDP) is attainable as it is in line with the strong revenue performance recorded in 2002, and the authorities are committed to stepping-up the strengthening of the tax and customs administrations.** The authorities indicated that they will pursue the implementation of the existing action plans aimed at enhancing the performance of the tax and customs administrations and broadening the tax base. Furthermore, in consultation with Fund staff, they intend to adopt by end-March 2003 improved action plans incorporating the recommendations of the Fund's September 2002 technical assistance mission on the reform of the tax and customs administrations (MEFP, para. 28). The authorities have also requested the Fund's technical assistance to help in monitoring the implementation of these action plans. The staff and the authorities agreed that customs administration required further strengthening, particularly regarding customs valuation, audit coverage, the use of pre-shipment inspection, the monitoring of special regimes, the transparency of customs practices, and the fight against smuggling, fraud, and corruption. The staff urged the authorities to improve the collection of nontax revenue, particularly dividends and debt-service payments on external loans on-lent to public enterprises.

24. **Total government expenditure in 2003 was set at 21.7 percent of GDP, which is 0.2 percentage point higher than programmed in the PRGF framework approved in July 2002.** The additional expenditure includes transfers to local authorities to facilitate the implementation of the devolution policy, following the municipal elections in December 2002, as well as a higher level of expenditure for public utility services on account of the increase in electricity tariffs effected in mid-2002 (20 percent on average). In this regard, the authorities have begun to take the necessary steps to keep electricity and telephone expenditures within budget appropriations. Budgetary outlays for the education and health sectors, based on the MTEF, were raised by about 30 percent over their 2002 outturn, compared with a 13.3 percent increase for total expenditure. In parallel, the authorities are discussing with development partners measures to improve the execution of social expenditure. The wage bill has been maintained at 4.8 percent of GDP. It includes an automatic 5 percent increase to bring the wages of government employees in line with the wage scale grades reached in 2002. The authorities indicated that they would avoid the recurrence of salary increases higher than the inflation rate in the following years. Current expenditure also includes CFAF 6.5 billion (0.3 percent of GDP) to cover the cost of the legislative elections scheduled for March 2003. In accordance with the PRSP objectives, public investment was increased to 8.5 percent of GDP in 2003 from 6.7 percent in 2002.

¹⁷ Enhanced HIPC Initiative relief is expected from multilateral institutions (0.8 percent of GDP) and bilateral creditors (0.3 percent of GDP). External budgetary assistance is to be provided by the World Bank (PERAC supplemental credit, 0.3 percent of GDP), the European Union (0.1 percent of GDP), and bilateral donors (0.2 percent of GDP).

25. **The authorities confirmed their intention to prepare, later in the year, a supplementary budget for 2003 that would commit more expenditure for priority sectors, in line with the alternative budgetary scenario in the PRSP (MEFP, para. 27).** The preparation of a supplementary budget will be launched only when concessional financing consistent with the objective of debt sustainability has been secured, taking into account the implementation of measures to improve absorption capacity in social spending.¹⁸ The authorities will consult with Fund and World Bank staffs before starting the preparation of the supplementary budget.

26. **The authorities intend to strengthen public expenditure management, in order to achieve the poverty reduction objective of the PRSP (MEFP, para. 29).** The authorities intend to reinforce the measures taken in recent years, with World Bank support in the form of the PERAC, to improve the level of execution of priority current expenditure. In parallel, they will pursue their efforts to enhance transparency and the tracking of poverty-reducing public spending, taking into account the conclusions of the fiscal module of a Report on the Observance of Standards and Codes (ROSC) and the joint Fund-World Bank assessment of the capacity of the expenditure management system to track poverty-reducing outlays.¹⁹ In this regard, the authorities intend to further reduce the number of cash advance accounts (*comptes des régisseurs*), with a view to eliminating all of these accounts in the near future. The authorities also plan to make SIGFIP fully effective by channeling all expenditure through the system, including, in particular, external debt service and externally financed capital expenditure. To this end, an action plan will be adopted by end-March 2003; an audit of 2001 HIPC Initiative-financed expenditure will also be completed by end-June 2003.²⁰

27. **The staff discussed with the authorities the budgetary implications of the devolution process, which will follow the December 2002 municipal elections.** The 2003 budget includes an allocation of CFAF 3.6 billion for local governments. The budget also includes CFAF 58 billion in appropriations that are currently administered centrally on behalf of the local governments. In order to facilitate the transfer of the management of these appropriations to local governments, the authorities completed studies on the modalities and the cost of transferring jurisdictions to the local governments, and adopted a fiscal and

¹⁸ In this regard, the authorities have taken measures to improve the implementation capacity in social sectors, by streamlining spending procedures, increasing the use of autonomous agencies in the implementation of projects, and providing training to public servants in line ministries on the new budgetary procedures.

¹⁹ Progress in implementing the actions to improve the tracking of poverty reduction expenditure is discussed in Box 5.

²⁰ An audit of 2000 HIPC Initiative-financed expenditure was finalized by end-December 2002. It also includes an impact assessment of these expenditures.

accounting framework for the local governments; moreover, they will provide training in budget management to local governments.

B. Regional Monetary Policy and the Financial Sector

28. **Regional monetary policy in 2003 will remain consistent with the fixed peg regime and an increase in the net foreign assets of the BCEAO.** For Benin, broad money is projected to increase in line with nominal GDP (8 percent). Net domestic assets of the banking system are projected to rise by 4.2 percent in terms of beginning-of-period broad money, with net bank credit to government remaining virtually unchanged, while credit to the nongovernment sector could increase by about 13½ percent.

29. **As regards the soundness of the banking system,** the government will continue to encourage the banks to comply with the Regional Banking Commission's prudential ratios to further the gains made in 2002 in this area. Regarding the state-controlled Continental Bank, the authorities are committed, as stated in the MEFP (paras. 10, 32, and 43), to implementing the rehabilitation plan that was adopted in December 2002 and divesting the government's stake in the bank before end-September 2003. In the microfinance sector, the rehabilitation of the cooperative and mutual credit institutions will continue to be encouraged, and the supervision of the sector will be further strengthened.

C. Other Structural Reforms

30. **The authorities are committed to accelerating the implementation of the structural reform program, as outlined in the MEFP (paras. 33-37), and in accordance with the PRSP.** These reforms are essential to improve the quality of public expenditure and utility services, and to accelerate growth. Box 6 provides a summary of structural conditionality under the current and past Fund-supported programs and of the areas where the World Bank staff has taken the lead.

31. **The divestiture program will be implemented with realistic timetables and a transparent process.** With respect to the privatization of the telecommunications company, which was separated by ordinance from the post office in January 2002, a competitive bidding will be launched during the first half of 2003. In the electricity sector, the bidding process for the introduction of private sector management will be initiated by end-June 2003, with the assistance of the World Bank. In the meantime, the authorities intend to implement the action plan adopted in December 2002 to restore the financial situation of the electric utility. Regarding the Port of Cotonou, implementation of the selected option of private sector involvement in the port operations will also start in 2003.

32. **In the cotton sector, the ongoing reform aims at increasing the efficiency of the sector and, thereby, the income of producers.** As regards the implementation of the strategy for privatizing SONAPRA (Société Nationale pour la Promotion Agricole), the authorities, in cooperation with the World Bank, have launched the process of recruiting an investment bank that will help carry out this privatization in complete transparency. In parallel, the strengthening of the new private institutions managing the sector, as well as the

producers' associations, will be pursued with the support of the World Bank in the framework of the cotton sector reform project approved in early 2002. The authorities are also undertaking a study on the impact of past and future cotton sector reforms on poverty, in collaboration with sector participants and with the World Bank.

33. **Regarding the civil service reform**, the authorities will continue to call on the parliament to vote the legislation on the new compensation system. The vote, however, is not expected to take place before the next legislative elections scheduled for end-March 2003. In the event that the new Parliament does not pass the legislation promptly, the authorities intend to reexamine its civil service reform strategy. In this regard, it will benefit from the background studies on public administration reform and decentralization recently conducted by the World Bank (Appendix III). In the meantime, since the beginning of 2003, the authorities have been implementing a policy of recruitment based on fixed-term contracts to replace the retiring civil servants, with a merit-based system applied to these contractual employees. To facilitate the control of the wage bill and the implementation of the planned civil service reform, the authorities intend to make effective, by end-March 2003, the use of the single civil service database for the payments of wage.

34. **Regarding the pension fund for the civil service (FNRB)**, the government completed a database of pensioners in September 2002 and finalized the terms of reference for an actuarial study to be used for the elaboration of a strategy to eliminate FNRB's financial deficit and to restore its medium-term financial equilibrium. The authorities aim to complete the actuarial study by September 2003 and to finalize the strategy in the last quarter of 2003.

D. Governance

35. **The authorities intend to ensure effective implementation of the national strategy, adopted in July 2002, to fight corruption.** In particular, they will strengthen human resources in governmental audit departments, such as the Chamber of Accounts (Chambre des Comptes), the General Inspectorate of Finance (Inspection Générale des Finances) and the internal audit departments of line ministries. The authorities also reiterated their commitment to pursue vigorously all cases of corruption brought to their attention and prosecute the verified cases. Regarding the privatized distributor of petroleum products, SONACOP, the authorities will implement the action plan, adopted in October 2002, to recover the unpaid customs duties and dividends and will use all the prerogatives of the state to collect in the event of default. The authorities also reaffirmed their commitment to pursue, in parallel, the judicial actions taken against SONACOP.

V. THE EXTERNAL SECTOR OUTLOOK IN THE CONTEXT OF DEBT RELIEF UNDER THE ENHANCED HIPC INITIATIVE AND CAPACITY TO REPAY THE FUND

36. The medium- and long-term balance of payments projections presented at the time of the third review of the program have been updated, based on the most recent available information and the latest projections of the World Economic Outlook (Tables 7 and 8).²¹ Benin's external current account deficit is expected to narrow gradually from 8.2 percent of GDP in 2002 to 7.0 percent in 2003, 6.6 percent in 2004, and 6.3 percent in 2005.²² This trend will be driven mainly by the projected recovery of the world cotton price. The overall balance of payments is expected to remain close to the initial program targets in 2003-04. In the alternative macroeconomic scenario of the PRSP, the authorities estimate that the external current account deficit would be about 1.5 percentage points higher in average over the period 2003-05.

37. Over the period 2003-05, debt service to the Fund, expressed in percent of exports of goods and nonfactor services, would decrease from 3.6 percent to 1.6 percent (Table 12); the outstanding credit to the Fund would decrease from 15.3 percent to 8.9 percent over the same period. Benin has a very good record of servicing its debt obligations, and, in view of its satisfactory balance of payments and fiscal positions, it is expected to discharge its future obligations to the Fund in a timely manner.

38. The authorities, in close collaboration with the Fund and World Bank staffs, have updated the **debt sustainability analysis (DSA)**, which supports the completion point. This analysis, which is based on end-2001 debt data, has three main findings. First, at end-2001, the ratio of the net present value (NPV) of debt to exports was 155 percent (including additional bilateral debt relief beyond enhanced HIPC Initiative assistance)—174 percent excluding bilateral debt relief beyond enhanced HIPC Initiative assistance—while it was expected in the decision point document to amount to 148 percent (see Box 7). Second, the higher-than-expected ratio of NPV of debt to exports at end-2001 is mostly explained by the

²¹ The impact of the conflict in Côte d'Ivoire on Benin's economy is expected to remain very limited.

²² An unexpected increase in the oil price would widen the external current deficit. The negative impact of this shock on the overall balance of payments, however, would be expected to be absorbed through a smaller accumulation of net foreign assets. A permanent increase in oil price of US\$5 per barrel, for example, would widen the external account deficit by some 0.4 percent of GDP and result in a shortfall in net foreign assets equivalent to one week of imports. The authorities also reaffirmed their commitment to continue to apply the existing mechanism under which retail petroleum prices are regularly adjusted to reflect variations in international prices.

fact that new government borrowings were larger than anticipated at the decision point.²³ Third, under the baseline overall macroeconomic scenario for 2003-05 and conservative assumptions for the period 2006-21, the ratio of the NPV of Benin's external debt to exports (after bilateral debt relief beyond enhanced HIPC Initiative assistance) would remain over 150 percent through 2004 but decline steadily subsequently and remain well below 150 percent (Table 10).²⁴ In view of these DSA results—showing that most of the cause of the debt deterioration was not beyond the control of the authorities and the debt is expected to be sustainable over the medium-term—it is the opinion of the staff that Benin's situation does not call for a topping up.²⁵

39. **The staff and the authorities also discussed alternative scenarios reflecting the main risks faced by Benin**, including (i) lower export prices for cotton; (ii) lower concessionality in external financing (less grants, compensated by more loans); and (iii) higher public expenditure, financed by loans and grants (Table 10).²⁶ The sensitivity analysis underscores that Benin's strong reliance on cotton exports constitutes a major source of vulnerability for the economy, as a 20 percent lower export price for cotton would postpone Benin's descent below the 150 percent debt-to-exports ratio until 2012, instead of 2005 as projected in the baseline scenario. The effect of the other two scenarios is much less dramatic, as the debt-to-exports ratio would remain below 150 percent from 2005 onward;

²³ As shown in Box 7, out of the unanticipated increase of 25.6 percentage points in the ratio of the NPV of debt to exports (the difference between the 173.5 and 147.9 percent), 35 percentage points were generated by larger-than-anticipated new borrowings, and 12.2 percentage points were caused by lower-than-projected export revenue, stemming from average export volumes and prices that were lower than projected at the decision point; meanwhile, -21.5 percentage points reflected changes in the exchange rates and the commercial interest reference rate. The increase in new borrowings is mostly due to the unexpected change in the composition of the external financing of government projects at the expense of grants, reflecting a weak selection process for investment projects. The authorities have recently taken measures to remedy the situation with donor's assistance (see paragraph 40; and MEFP, para. 40).

²⁴ Over the period 2006-21, the real GDP growth rate is projected to remain at about 5 percent, the ratio of exports to GDP is projected to gradually increase from 15 percent, which is the average level reached over 1999-2002, to 15.7 percent, and new borrowings would remain above the historically high levels recorded in 1999-2002.

²⁵ As discussed in "Benin—Enhanced HIPC Initiative Completion Point Document" (EBS/03/23), paras. 46 and 47.

²⁶ The results of the scenarios are discussed in detail in "Benin—Enhanced HIPC Initiative Completion Point Document" (EBS/03/23). The third scenario corresponds to the alternative scenario of the PRSP for the period 2003-05.

however, it underlines the importance of following prudent debt-management policies and avoiding a new buildup in debt.

40. **The Fund and World Bank staffs discussed these results with the authorities, who concurred that a prudent policy as regards new borrowings was necessary to maintain the external debt on a sustainable path.** In this regard, the authorities have established a debt committee that will be responsible for drafting and monitoring debt policy, and annually updating the debt sustainability analysis. To reflect their commitment to a cautious debt management, the authorities also agreed to set a cap on the overall government deficit (including grants) in the form of a performance criterion to keep the borrowing requirement of the government in line with the program budget. In parallel, the authorities indicated that, with the support of the World Bank, they will improve the selection of investment projects in order to meet the objectives of the PRSP and will increase reliance on grants and highly concessional loans for their financing.

VI. STATISTICAL ISSUES

41. The national accounts statistics suffer from a lack of a comprehensive data collection system, which is reflected in the deficient data for the output of the informal sector, and in the weaknesses in measuring agricultural production for own consumption. The balance of payments data only partially capture informal regional trade (especially with Nigeria) and suffer from weaknesses in the reporting of foreign direct investment transactions. Important issues also remain to be addressed with respect to poverty data. Data deficiencies do not, however, hamper the ability of the staff to conduct an effective surveillance of economic policies. The authorities have been regularly providing core data for surveillance to the Fund and are continuing their efforts to improve their quality, coverage, and timeliness. The government also participates in a regional project to harmonize and improve macroeconomic data (Appendix IV).

VII. PROGRAM MONITORING

42. The authorities have complied with the prior actions, and established quarterly quantitative performance criteria, indicative targets, and structural benchmarks for the period January 1–December 31, 2003 to ensure successful implementation of the 2003 program (MEFP, paras. 41-43 and Table 1). In light of the PRSP, structural benchmarks were chosen from measures to improve expenditure management, to strengthen government revenue collection and the banking system, and to improve the level of social expenditure. Progress under the program will be assessed in the context of the fifth review.

VIII. STAFF APPRAISAL

43. **The staff considers that economic and financial performance under the PRGF-supported program was broadly satisfactory.** Benin continued to display rapid output growth with low inflation in 2002. All the quantitative performance criteria for

end-September 2002 were met, and the four structural benchmarks were observed by end-December 2002. However, spending on health and education remained below the quantitative benchmarks, and the civil service reform continued to stall.

44. **The authorities have finalized the poverty reduction strategy** for 2003-05, which aims at achieving strong economic growth and reducing poverty, while maintaining financial stability. This strategy constitutes the reference framework for Benin's policies, as well as for its development partners. The third-year program under the PRGF is coherent with the baseline scenario set out in the PRSP.

45. **The fiscal stance for 2003 corresponds to the baseline scenario for government financial operations in the PRSP and reflects the government's poverty reduction objectives.** The achievement of the fiscal targets will, however, require strengthened implementation of the action plans aimed at improving the performance of the tax and customs administrations, as well as continued efforts to rein in nonpriority current spending. In parallel, the authorities are encouraged to continue their efforts to improve the level of execution of priority expenditure, and to enhance transparency and the tracking of poverty-reducing outlays, including through the strengthening of the new expenditure management system.

46. The authorities have indicated that they would seek additional external assistance to finance the more ambitious alternative scenario of the PRSP. **A supplementary budget** to that effect, which would commit higher capital expenditure to priority sectors, **should be prepared only after concessional financing consistent with the objective of debt sustainability has been secured and absorption capacity in social spending has improved.**

47. **Implementation of the structural reform agenda through a timely and transparent process is of critical importance for achieving the objectives of the PRSP.** The realistic timetable established with donor's assistance for the divestiture of public utilities and the state-owned bank, as well as for the privatization of the state-owned ginning enterprise, SONAPRA, should be strictly adhered to. It is also important that the long-delayed reform of the civil service compensation system be rapidly implemented, in order to improve civil service management.

48. **To strengthen the financial sector,** the authorities need to encourage all banks to comply with the Regional Banking Commission's prudential ratios in order to further the gains made in 2002 in this area, and to continue the rehabilitation of the cooperative and mutual credit institutions.

49. **The debt sustainability analysis prepared for the enhanced HIPC Initiative completion point has stressed the importance of following prudent external debt-management policies** and avoiding a new buildup in external debt. The authorities are, therefore, encouraged, with the support of the new debt committee, to strictly adhere to the

cap set on the overall government borrowing requirement and to increase reliance on grants and highly concessional loans.

50. **Risks to the medium-term program remain but are manageable.** Benin's strong reliance on cotton exports constitutes a major source of vulnerability. Diversification, through the promotion of private sector initiative and investment, as sought in the poverty reduction strategy, will be a key determinant of the long-term resilience of the economy. In the short run, the authorities will need to be prepared to strengthen their adjustment efforts should such a shock in the terms of trade occur. Also, to be able to achieve the objectives of the PRSP, the absorption capacity in poverty-reducing public expenditures will need to be improved.

51. In view of the satisfactory performance under the program and the authorities' determination to achieve the program objectives in the macroeconomic, structural, and poverty alleviation areas, **the staff recommends that the fourth review under the three-year PRGF arrangement be concluded.**

Benin: Delivery of IMF Assistance Under the Enhanced HIPC Initiative, 2000-09 1/
(In millions of SDRs, unless otherwise indicated)

| | 2000 2/ | 2001 | 2002 | 2003 | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---------|--------|--------|-----------|-----------|------|------|------|------|------|------|
| | Actual | Actual | Actual | Jan.-Jun. | Jul.-Dec. | | | | | | |
| Delivery schedule of IMF assistance (in percent of total assistance) | 10 | 20 | 20 | 10 | 10 | 15 | 5 | 5 | 5 | 0 | 0 |
| Debt service due on IMF obligations 3/ | 5.6 | 12.0 | 11.8 | 6.4 | 5.6 | 9.0 | 6.4 | 4.6 | 2.8 | 1.9 | 1.5 |
| Principal | 5.2 | 11.4 | 11.3 | 6.1 | 5.3 | 8.5 | 6.0 | 4.2 | 2.4 | 1.4 | 1.1 |
| Interest | 0.4 | 0.7 | 0.5 | 0.3 | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| IMF assistance—deposits into Benin's account | | | | | | | | | | | |
| Interim assistance | 3.70 | 3.68 | 3.66 | ... | ... | ... | ... | ... | ... | ... | ... |
| Completion point assistance 4/ | ... | ... | ... | 7.36 | ... | ... | ... | ... | ... | ... | ... |
| IMF assistance—drawdown schedule 5/ | 1.8 | 3.7 | 3.7 | 2.4 | 1.9 | 3.7 | 1.7 | 1.0 | 1.0 | 0.0 | 0.0 |
| IMF assistance without interest | 1.8 | 3.6 | 3.7 | 1.8 | 1.9 | 2.8 | 0.9 | 0.9 | 0.9 | 0.0 | 0.0 |
| Estimated interest earnings | 0.0 | 0.1 | 0.0 | 0.6 | 0.0 | 1.0 | 0.8 | 0.1 | 0.1 | 0.0 | 0.0 |
| Debt service due on current IMF obligations after IMF assistance | 3.8 | 8.3 | 8.1 | 4.0 | 3.7 | 5.3 | 4.7 | 3.6 | 1.8 | 1.9 | 1.5 |
| Share of debt service due on IMF obligations covered by IMF assistance (in percent) | 32.5 | 30.8 | 31.6 | 37.4 | 34.4 | 41.2 | 26.7 | 22.4 | 35.9 | 0.0 | 0.0 |
| Proportion (in percent) of each repayment falling due during the period to be paid by IMF Initiative assistance from the principal deposited in Benin's account | 34.9 | 32.1 | 32.6 | 29.8 | 36.1 | 32.4 | 15.4 | 22.1 | 39.1 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | | |
| Total debt service due (in millions of U.S. dollars) 6/ | 39 | 69 | 60 | 64 | 7/ | 63 | 63 | 66 | 66 | 68 | 69 |
| Debt service due on IMF obligations (in millions of U.S. dollars) | 7.7 | 16.0 | 14.7 | 14.8 | 7/ | 11.0 | 7.8 | 7.7 | 6.9 | 5.7 | 5.2 |
| Debt service due on current IMF obligations after IMF assistance (in percent of exports) | 4.7 | 12.3 | 11.0 | 12.4 | 7/ | 7.3 | 6.0 | 6.6 | 5.9 | 5.7 | 5.2 |
| | 1.4 | 3.4 | 2.9 | 2.7 | 7/ | 1.5 | 1.1 | 1.1 | 0.9 | 0.8 | 0.7 |
| Share of total debt service covered by IMF assistance (in percent) | 4.7 | 5.3 | 6.2 | 3.7 | 7/ | 5.9 | 2.7 | 1.6 | 1.5 | 0.0 | 0.0 |

Sources: Beninese authorities; and staff estimates and projections.

1/ Total IMF assistance under the enhanced HIPC Initiative is SDR 18.4 million, calculated on the basis of data available at the decision point, reached on July 17, 2000, excluding interest earned on Benin's account and on committed but undisbursed amounts, as described in footnotes 3 and 4.

2/ July - December.

3/ Forthcoming obligations estimated based on rates and principal schedules in effect as of end-June 2000. Interest obligations include net SDR charges and assessments.

4/ A final disbursement of assistance in the amount of SDR 7.360 million plus accumulated interest income accrued during the interim period is to be disbursed into Benin's account at the assumed completion point in March 2003.

5/ Includes estimated interest earnings on (i) amounts held in Benin's account and (ii) amounts committed but not yet disbursed up to the completion point. It is assumed that these amounts earn a rate of return of 5 percent in SDR terms; actual interest earnings may be higher or lower. Interest accrued on (i) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (ii) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.

6/ After traditional debt-relief mechanisms.

7/ Refers to the entire year.

Box 1. Benin: Reforms in the Cotton Sector

Cotton is the major cash crop in Benin, as well as the major source of export earnings. Almost 200,000 households are involved in cotton production in five of the country's six agro-ecological zones. After a very rapid growth in the early 1990s, the cotton sector has continued to grow moderately, mainly as a result of cultivated area expansion. Production of seed cotton reached the historically high level of 411,491 tons in crop-year 2001/02 (2.5 times the output in 1992/93). A projected 15.4 percent drop in cotton production for the 2002/03 season comes as a consequence of the record low world prices in 2001/02, which led to reduced planting.

Benin: Performance of the Cotton Sector, 1997/98-2002/03

(In units indicated)

| | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 Est. |
|--|---------|---------|---------|---------|---------|-----------------|
| Production of seed cotton (1,000 tons) | 359.2 | 336.2 | 363.0 | 336.6 | 411.5 | 350.0 |
| Production of fiber (1,000 tons) | 151.0 | 138.3 | 152.6 | 141.4 | 171.3 | 145.7 |
| Fiber yield (in percent) | 42 | 41 | 43 | 43 | 42 | 42 |
| Cultivated area (1,000 hectares) | 386.2 | 394.4 | 362.8 | 369.8 | 383.4 | 300.0 |
| Producer price (CFA francs per kilogram) | 200 | 225 | 185 | 200 | 200 | 190 |
| Average export price of cotton fiber (CFA francs per kilogram) | 810 | 645 | 668 | 804 | 598 | 700 |
| Memorandum items: | | | | | | |
| Cotton sector contribution to GDP (in percent) | 8 | 7 | 7 | 7 | 6 | 6 |
| Share of cotton exports in total domestic exports (in percent) | 83 | 87 | 87 | 76 | 71 | 68 |
| Share of producer price relative to export price (in percent) | 53 | 85 | 65 | 58 | 80 | 65 |

Reforms. The reforms aimed at increasing the productivity and competitiveness of the Beninese cotton sector, in order to raise the producer's share of export revenues and thus contribute to the reduction of rural poverty, have been continuing successfully. Since their start in 1995, Benin has moved away from the integrated monopoly that characterized the organization of cotton production and marketing of seed cotton in western and central Africa. Benin's reform process is among the most advanced in the region; it has been supported by technical assistance from the World Bank and bilateral donors working closely with both the government and the private sector. The integrated *filière* has been dismantled, putting an end to the state monopoly of the national cotton company, SONAPRA. Private companies have been granted licenses to gin and export cotton; prices and marketing decisions are negotiated among private sector operators (producers, ginning companies, and other market participants) at the national level. Privatization of SONAPRA, which controls about 50 percent of the country's ginning capacity, is under way. The privatization strategy adopted by the government in cooperation with the World Bank foresees sales of ginning plants by lots in the course of 2003.

The sector's critical commercial and technical functions, formerly managed by SONAPRA, are now entrusted to the Interprofessional Cotton Association (AIC), which regroups ginners, input suppliers and the cotton farmers' association. The AIC has established a new credit input recovery system, the CSPR (Centrale de Sécurisation des Paiements et des Recouvrements), that serves to insure both the payment of seed cotton to the producers and the recovery of input credit by ginners. Seed cotton quantities are allocated among ginning companies on the basis of installed ginning capacity. The CSPR requires an advance payment of 40 percent of the quota and uses it to repay the credit input to lending banks and make payments to producers. During its first year of operation (the 2000/01 crop season), the CSPR experienced some cash-flow problems, as some ginners did not pay for the received cotton, and payments to producers were delayed. To avoid a recurrence of payment problems, the CSPR strengthened its rules in 2001/02 banning the ginners in arrears from the allocation of cotton. For the 2002/03 season, six ginning companies made an initial 40 percent down payment of the quota in mid-November 2002.

Box 1. Benin: Reforms in the Cotton Sector (concluded)

In the context of the sharp fall in the world price of ginned cotton in 2001, the government decided to resort to an exceptional subsidy (CFAF 45 per kilogram) to cotton-producing farmers in order to keep the producer price in 2001/02 at the 2000/01 level of CFAF 200 per kilogram. For the 2002/03 season, however, the price was set after negotiations among the producers and the ginners, based on the world market price; it does not require a government subsidy. This price of CFAF 190 per kilogram includes a CFAF 10 contribution to the extension services that represent expenditures on roads and infrastructure.

Next steps. The reform aims at establishing a competitive system of contract farming that would allow for decentralized pricing, eliminate the administrative allocation of seed cotton, and encourage competition among ginning companies. This requires, however, organizational, technical, and commercial capacities on the part of producer organizations that currently are underdeveloped. Consequently, as the next step in the transition, measures have been identified to strengthen the new institutions managing the sector, as well as producers' associations, with the support of a World Bank Cotton Sector Reform Project, approved in January 2002.

Reform Summary

| Date | Action |
|---------|---|
| 1992-93 | The payment of seed cotton is subcontracted by SONAPRA to private firms. Private firms can bid for seasonal contracts to provide input. |
| 1995 | The government grants licenses to three private enterprises to gin cotton and export their production. |
| 1997-98 | Five additional ginning companies obtain licenses. |
| 2000 | The CSPR is created by sector participants to take over the primary marketing of seed cotton from SONAPRA. |
| 2000-01 | The monopsony of SONAPRA ends. |
| 2001-02 | The CSPR is solely responsible for input credit recovery, seed collection, and price determination. |

Box 2. Benin: Compliance with WAEMU Convergence Criteria

(In percent, unless otherwise indicated)

| | Convergence Criterion | 1999 | 2000 | 2001 | 2002 Est. |
|---|--------------------------|-------|-------|------|--------------|
| Primary criteria | | | | | |
| Basic fiscal balance/GDP 1/ | ≥ 0.0 | 2.8 | 1.9 | 0.4 | 0.2 |
| Basic fiscal balance/GDP 2/ | ≥ 0.0 | 2.8 | 2.2 | 1.4 | 1.1 |
| Inflation (annual average) | ≤ 3.0 | 0.3 | 4.2 | 4.0 | 2.3 |
| Total debt/GDP 3/ | ≤ 70.0 | 56.6 | 59.6 | 59.5 | 50.7 |
| Nonaccumulation of domestic arrears 4/ | ≤ 0.0 | -11.3 | -15.8 | 0.0 | 0.0 |
| Nonaccumulation of external arrears 4/ | ≤ 0.0 | -13.3 | -14.8 | 0.0 | 0.0 |
| Secondary criteria | | | | | |
| Wages/tax revenue (in percent) | ≤ 35.0 | 33.0 | 32.0 | 32.6 | 31.6 |
| Domestically financed investment/tax revenue (in percent) | ≥ 20.0 | 13.9 | 15.0 | 22.4 | 18.6 |
| Current account deficit, excluding public transfers/GDP (in percent) | ≤ 5.0 | 8.7 | 8.1 | 7.9 | 8.4 |
| Tax revenue/GDP (in percent) | ≥ 17.0 | 13.7 | 14.6 | 14.2 | 15.1 |

Sources: Beninese authorities; and staff estimates.

1/ Basic fiscal balance is defined as total revenue minus total expenditure, excluding foreign-financed investment.

2/ Basic fiscal balance, excluding the use of enhanced HIPC Initiative resources.

3/ Include domestic and external debt.

4/ In billions of CFA francs.

Box 3. Benin: Poverty Reduction Strategy Paper

The authorities completed their full PRSP and submitted it to the Fund and the IDA in January 2003. The joint staff assessment (JSA) prepared by staffs of the Fund and IDA considers the PRSP as providing an adequate framework for reducing poverty and a sound basis for Fund and IDA concessional assistance.

Participatory process. The PRSP has been the result of an extensive consultative process that capitalized on lessons learned from previous initiatives. The process included three preparatory workshops with the civil society and the private sector to raise awareness on the PRSP and inform these groups about the inputs expected from them. Three thematic workshops were organized at the national level on strategic issues, while two rounds of workshops were conducted at the regional level to identify sectoral priorities and establish poverty profiles. The participatory process will continue to be used in the implementation, monitoring, and evaluation of the poverty reduction strategy, with a view to eliciting ownership of the strategy by the beneficiaries.

PRSP objectives and strategies. The PRSP poverty reduction strategy has four key objectives:

- the strengthening of macroeconomic stability;
- the Improvement of human capital and environmental management;
- the strengthening of governance and institutional capacity; and
- the promotion of sustainable employment opportunities and strengthening of the capacity of the poor to participate in the decision making.

The PRSP emphasizes the need for further consolidation of the **macroeconomic framework** through sound fiscal and monetary policies and a stronger growth performance, led by the private sector. To foster private sector activity, measures will be taken to improve the physical infrastructure and the judicial and regulatory framework. The PRSP identifies four priority sectors of growth: agro-industry, tourism, new information technologies, and transit activities. In the area of **human capital development**, the PRSP sets well-defined measures and performance targets in education and literacy, health, drinking water, housing, rural electrification and roads, and nutrition and food security. Regarding the **strengthening of good governance and institutional capacity**, major measures in the PRSP include (i) implementation of the anticorruption strategy that was adopted in 2002; (ii) continued implementation of public expenditure reforms including the acceleration of administrative reform and decentralization; and (iii) the strengthening of the judicial system and domestic social dialogue. The PRSP also calls for the improvement of **employment and income-generation opportunities and better participation of poor and vulnerable groups in the decision-making processes** through (i) promotion of small business; (ii) development of microfinance; (iii) community development; (iv) promotion of increased participation in economic activities; and (v) access to education for women.

PRSP scenarios. The PRSP presents two budget scenarios for the 2003-05 period, along with corresponding macroeconomic frameworks. The baseline scenario is consistent with the PRGF-supported program approved in July 2002 (EBS/02/119; 7/01/02), on the basis of which the authorities drafted the 2003 budget. The second scenario incorporates higher capital expenditure in priority sectors which will require additional donor support. The transition from the baseline scenario to the second scenario will be determined by the capacity to mobilize additional concessional assistance and the absorption capacity in social spending.

Box 3. Benin: Poverty Reduction Strategy Paper (concluded)

Monitoring and evaluation. The PRSP proposes a comprehensive monitoring and evaluation system with an intensive capacity-building program, supported by various donors.

Summary of Budgetary and Macroeconomic Scenarios Presented in the PRSP

| | 2003 | | 2004 | | 2005 | |
|----------------------------|----------------------------|------------|------------|------------|------------|------------|
| | Scenario 1 | Scenario 2 | Scenario 1 | Scenario 2 | Scenario 1 | Scenario 2 |
| | (Annual percentage change) | | | | | |
| National income | | | | | | |
| GDP at constant prices | 5.6 | 5.8 | 6.5 | 6.8 | 6.5 | 7.0 |
| Inflation (average) | 2.4 | 2.7 | 2.5 | 3.0 | 2.5 | 3.0 |
| | (Percentage of GDP) | | | | | |
| Gross investment | 19.7 | 20.9 | 19.7 | 21.4 | 19.9 | 20.7 |
| Government | 8.7 | 9.9 | 8.7 | 10.4 | 8.6 | 9.4 |
| Private sector | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Gross domestic saving | 8.8 | 8.9 | 9.7 | 10.4 | 10.7 | 10.7 |
| Government | 4.5 | 4.5 | 5.1 | 5.2 | 5.2 | 5.5 |
| Private sector | 4.3 | 4.4 | 4.6 | 5.2 | 5.1 | 5.2 |
| Gross national saving | 12.4 | 12.4 | 13.1 | 12.7 | 13.6 | 12.9 |
| External sector | | | | | | |
| Current account balance | -7.3 | -8.5 | -6.6 | -8.7 | -6.3 | -7.8 |
| Central government finance | | | | | | |
| Revenue | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 |
| Total expenditure | 21.7 | 23.2 | 21.2 | 22.7 | 20.9 | 21.5 |
| Overall fiscal deficit | -4.7 | -6.1 | -4.2 | -5.7 | -4.0 | -4.5 |

Source: PRSP, Annex 3, Table 1.

Box 4. Poverty in Benin: Characteristics, Issues, and Policies 1/

Features of poverty in Benin include the following:

- Overall, about one-third of the Beninese are poor in monetary terms. The poverty situation is even more pronounced in nonmonetary terms, with an incidence of nonmonetary poverty of 49 percent (not being poor in monetary terms does not necessarily mean that basic needs are satisfied).^{2/}
- The incidence of monetary poverty is higher in the rural areas (representing 65 percent of the population) than in the urban areas. In the course of the second half of the last decade, the poverty situation improved in the urban areas, with the incidence of poverty falling from 29 percent to 23 percent, but it worsened in the rural areas, where the incidence of poverty increased from 25 percent to 33 percent. The estimated poverty line rose much faster in urban areas (88 percent) than in rural areas (22 percent) during the same period, implying that the disparity between the incomes of rural and urban populations has widened significantly. Moreover, the income distribution in the rural areas is substantially worse than in the urban areas.
- The geographical distribution of poverty is also uneven, with a lower incidence in the central regions. Poverty incidence is highest in the rural areas of northern departments, while urban poverty is significant in some southern departments and one northern department.
- The cotton zone in central Benin (the Zou and Borgou areas) presents one of the highest incidences of poverty, while the deepest poverty (as measured by the poverty gap index) can be found in the north (cotton-producing area in northern Borgou).
- The disparity between the incidences of poverty in rural and urban regions is substantially more significant in terms of nonmonetary poverty than in terms of monetary poverty; the rural population has been hit more severely by limited access to basic goods and services than by lower income. The main sources of vulnerability are the lack of employment or income opportunities, poor rural infrastructure, inadequate water supply and sanitation, and insufficient access to health services and education.
- As regards the disparity between genders, the incidence of monetary poverty is higher for female-headed households than for male-headed households.

1/ The discussion in this box is based on the results reported in the PRSP.

2/ Monetary poverty is determined on the basis of the revenue of a household relative to the poverty threshold. Nonmonetary poverty is determined on the basis of access to basic services, such as health, education, nutrition, and drinking water.

Box 4. Poverty in Benin: Characteristics, Issues, and Policies (concluded)

- The Beninese perceive the lack of food and money as the two primary dimensions of poverty. Malnutrition rates are high, and food insecurity is still widespread. Other social dimensions of poverty often mentioned are the lack of children or a family. This dimension is particularly often cited in rural areas, where children represent an addition to the workforce and support the elderly.

Comparative poverty-related social indicators:

- Living standards in Benin are still comparatively low in spite of the steady progress made in the last three decades. The human development index of the United Nations Development Program (UNDP) ranked Benin 158th out of 173 countries in 2000. Table 14 presents some selected comparative social indicators.
- Life expectancy is higher in Benin than in most other sub-Saharan Africa (SSAs) countries—53.4 years for Benin against 50.8 years for the SSAs. With reduced mortality rates, life expectancy rose by about two years during the last decade.
- In the last decade, primary and secondary school enrollment and literacy rates rose steadily. However, literacy still remains well below sub-Saharan standards.
- Gender disparities are significant; female gross primary school enrollment rates remain low. Benin has the widest male/female enrollment gap in west Africa as its gap has not narrowed in the last decade, contrary to the trend in most other West African countries.

Issues and policies:

- Poverty is prevalent in the cotton-producing areas. The authorities and the World Bank will jointly conduct in 2003 a poverty and social impact analysis to better understand the impact of cotton sector reforms on the poor.
- The authorities seek to implement policies aimed at reducing poverty in the framework of the PRSP. The PRSP emphasizes agricultural policies, as agriculture represents one-third of the GDP and is the most important source of livelihood in the rural areas. The authorities are committed to pursuing reforms in the cotton sector in order to improve producers' revenues. The PRSP identifies factors that constrain the development of the agricultural sector and includes actions to promote agricultural development and diversification. For the rest of the economy, the PRSP envisages a private sector-led growth, including through the privatization of public utility enterprises, which should improve the efficiency of these services.
- The PRSP identifies priorities in social sectors, including health, education, sanitation and drinking water, rural roads, and electrification, and intends to increase public expenditures in these sectors. Improvement of access levels to these services are expected to have a significant effect on poverty reduction, as the surveys have shown that in Benin inadequate access to basic services has a more significant adverse impact on the poverty situation than does low revenue.

Box 5. Benin: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending

| Actions | Timing (S/M) 1/ | Status (FI/II/ NS) 2/ | Date Achieved | Comments |
|--|--------------------|-----------------------------|------------------|--|
| Actions to strengthen budget formulation | | | | |
| Identify poverty reducing items in budget. | S | FI | 2001 | |
| Include externally financed projects and external debt service in the SIGFIP. | S | NS | | Action plan to be adopted by March 2003 |
| Include table showing poverty-reducing expenditures in 2003 budget. | S | FI | 2003 | |
| Identify separately in the budget poverty-reducing expenditure financed from enhanced HIPC Initiative resources. | S | FI | 2001 | |
| Develop a medium-term budgetary framework. | S | FI | 2002 | Included in the PRSP |
| Set budget classifications as: administrative, economic, and functional. | S | II | | These classifications will be applied to all public entities |
| Actions to strengthen budget execution | | | | |
| Audit enhanced HIPC Initiative-related expenses annually. | S | II | | The 2001 audit will be finalized before June 2003 |
| Strengthen internal controls. | M | II | | Ongoing, with donors' assistance |
| Reduce and eventually eliminate cash advances. | M | II | | First 300 accounts closed as of January 2003 |
| Set priorities for investment projects in context of strengthened debt management. | M | II | | A debt committee will be established before end-March 2003 |
| 1/ S=short-term action; M=medium-term action. 2/ FI=fully implemented; II=implementation initiated; NS=not started. | | | | |

Box 5. Benin: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending (concluded)

| Actions | Timing (S/M) | Status (FI/II/ NS) | Date Achieved | Comments |
|--|-----------------|--------------------------|------------------|--|
| Actions to strengthen budget reporting | | | | |
| Treasury balances are reported monthly. | S | FI | August 2002 | |
| The monthly budget operations are received within four weeks of the end of the reference period. | S | FI | 2000 | Data on capital expenditure are available after a longer delay |
| Accounts are closed within two months of year's end. | S | FI | 2000 | |
| The accounts are audited and presented to the chamber of accounts within 12 months of fiscal year's end. | S | II | 2000 | |

Box 6. Benin: Structural Conditionality

Coverage of structural conditionality in the PRGF-supported program for 2000-03

The first-year program under the three-year PRGF arrangement contained two structural performance criteria on improving public expenditure management and tax administration that were observed, and one structural benchmark, related to civil service reform that was observed with delays. The three measures had the objective of strengthening public resource management. The first half of the second-year program included four structural benchmarks on civil service reform, the banking system, and expenditure management. They were all observed, except that relating to the banking system. The second half of the second-year program contained four structural benchmarks, designed to strengthen the financial viability of the electricity company, to collect tax and dividend arrears, to strengthen public expenditure management, and to strengthen the banking system. All were observed, although with delays. Benin has also satisfied all the structural conditions for the completion point under the HIPC Initiative: two in the area of government financial management, one on governance, one on adopting a strategy for the privatization of the cotton monopsony (SONAPRA), and five related to outcomes in the health and education sectors.

The proposed structural benchmarks for the 2003 program, set in accordance with the PRSP, aim at improving expenditure management, and strengthening government revenue collection and the banking system.

Structural areas covered by World Bank lending and conditionality

The World Bank has assisted the authorities in public expenditure management through an expenditure reform adjustment credit (PERAC) approved in March 2001 and a related Supplemental Credit approved in October 2002. This credit has supported the following key actions: (i) formulation of a medium-term expenditure framework for 2002-04; (ii) strengthening of the formulation of sectoral spending strategies in five ministries; (iii) presentation of a 2002 budget to the National Assembly that is strongly oriented toward growth and poverty reduction; (iv) monitoring of the execution of the 2001 budget on a semiannual basis; (v) observance of performance criteria with respect to public procurement; and (vi) completion by the Chamber of Accounts of a performance audit for the 2000 budget. Significant progress has been achieved in all of these areas and the World Bank intends to help consolidate this progress through a Poverty Reduction Support Credit (PRSC). Triggers for the Bank to approve the PRSC include completion of a satisfactory PRSP, progress in implementing the cotton sector reform program, tangible progress in the privatization and in setting up appropriate regulatory frameworks in privatized sectors and improving execution rates for social expenditure. As outlined in its Interim Country Assistance Strategy (I-CAS) of 2001, the World Bank is undergoing a strategic shift toward providing a large share of IDA financing to Benin in the form of consolidated programmatic lending. This shift would also imply that the World Bank moved increasingly toward making ex post assessments of progress, and toward modulating its financial support to the pace of reform implementation.

The World Bank is also assisting the authorities in the cotton sector and the privatization of the state-owned ginning enterprise, SONAPRA, for which it has approved a sectoral credit in January 2002. The Bank is also preparing an Energy Services Project that will, inter alia, support the privatization of the Benin Electricity and Water Company (SBEE).

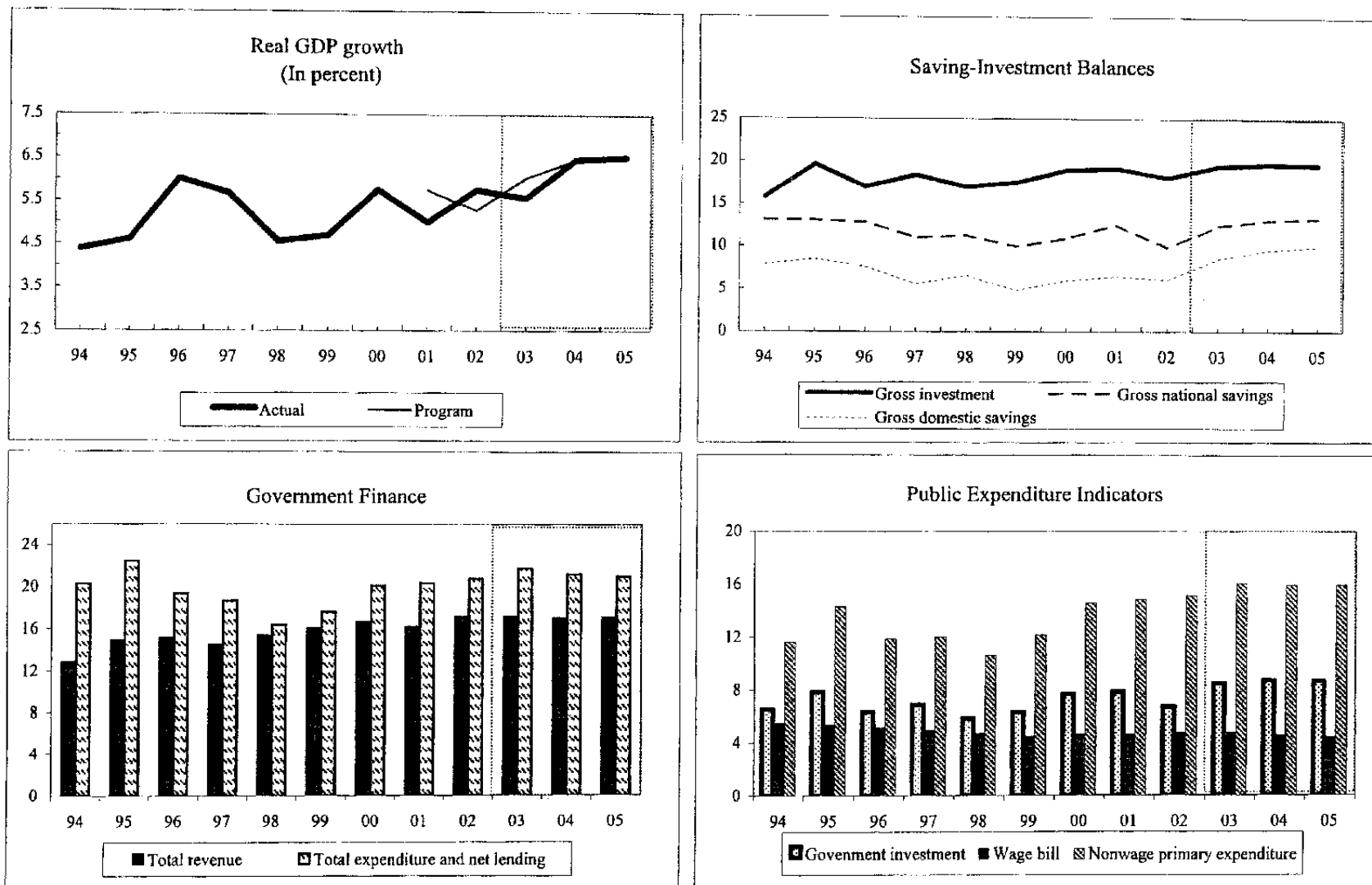
Other areas relevant to the Fund-supported program and in which the World Bank is assisting the authorities include: (i) the public administration reform; (ii) the privatization of public enterprises; (iii) health; (iv) education; (v) social indicators; and (vi) governance. The World Bank does not have specific structural conditions in those areas but does monitor progress as a basis of its assistance. In the area of public administration reform, the World Bank helped design the reform of the civil service promotion and compensation system; in addition, it has recently conducted new analysis of public administration reform and decentralization, as a basis for policy dialogue.

Other relevant structural conditions not included in current program

The privatization of public enterprises outside the cotton and electricity sectors is an area of macroeconomic relevance, particularly for boosting growth, which is not covered by any conditionality.

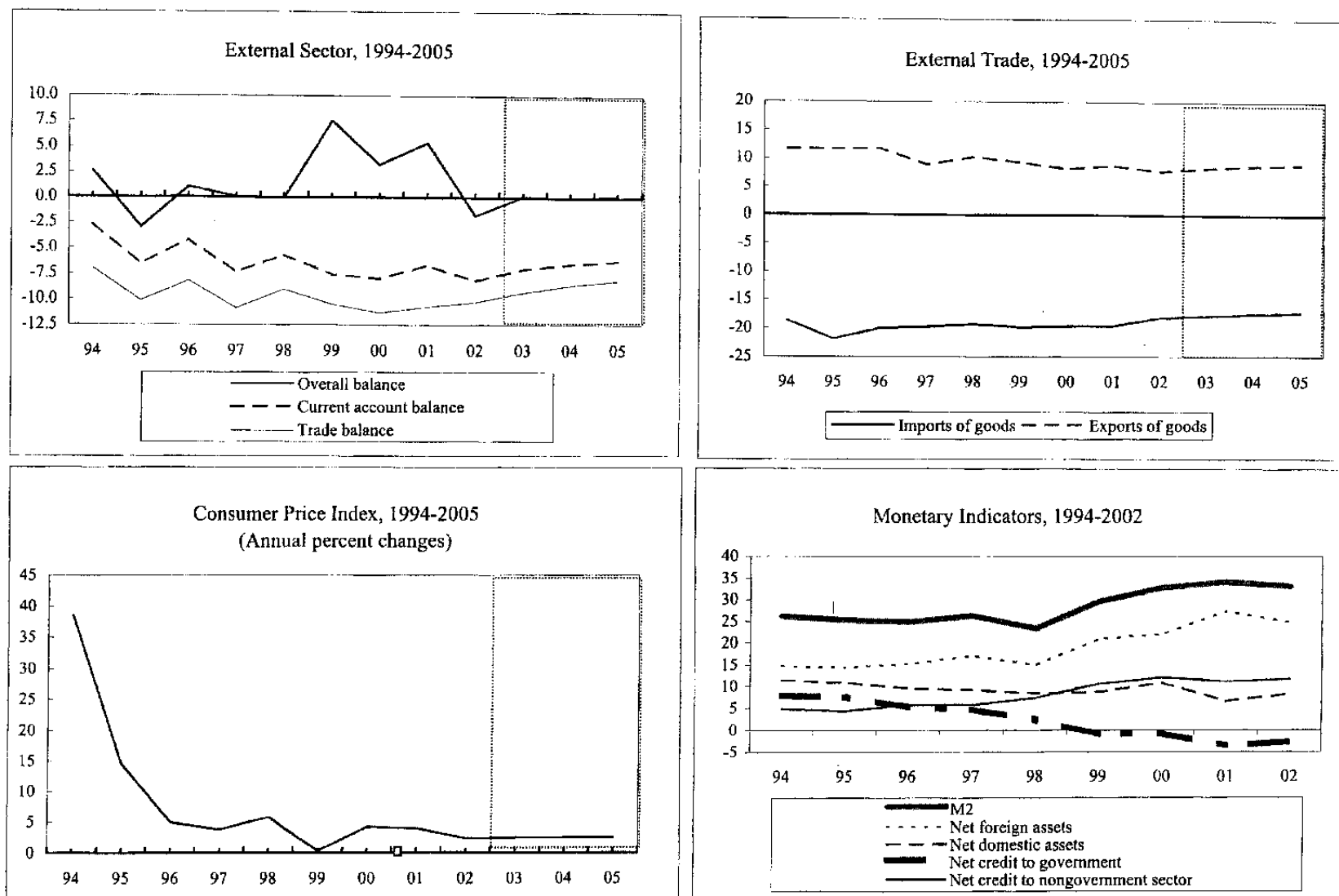
| Box 7. Benin: Decomposition of Projected vs. Actual Debt-to-Exports Ratio as of end-2001 | | | |
|---|--------------------------------------|----------------------------------|--------------------------------------|
| | Decision Point DSA Projections | Completion Point DSA Actual | |
| | After Enhanced HIPC Relief | After enhanced HIPC relief | After additional bilateral relief |
| NPV of debt-to-exports ratio (in percent) | | | |
| Decision point projection (end-1998 parameters) | 147.9% | ... | ... |
| Outturn (end-2001 parameters) | ... | 173.5% | 155.4% |
| Difference between projections at outturn and decision point | | 25.6% | |
| Effect of unanticipated new borrowing | | | |
| NPV of debt in 1998 terms (in millions of U.S. dollars) | 580 | 717 | 633 |
| Multilateral | 428 | 536 | 536 |
| Official bilateral and commercial | 151 | 181 | 97 |
| NPV of unanticipated debt, end-1998 parameters (in millions of U.S. dollars) | | 137 | |
| NPV of unanticipated new borrowing as percentage of exports, 1998 parameters | | 35.0% | |
| Effect of changed parameters (exchange, interest rates) | | | |
| SDR/U.S. dollar exchange rate | 0.71 | 0.80 | 0.80 |
| SDR commercial interests reference rate | 5.25% | 5.16% | 5.16% |
| Effect of changed parameters on NPV of debt as percentage of exports | | -21.5% | |
| Effect of lower exports | | | |
| Exports of goods and services (three-year average; in millions of U.S. dollars) | 392 | 365 | 365 |
| Effect of change in exports on debt-to-exports ratio | | 12.2% | |
| Memorandum items: | | | |
| NPV of debt in 2001 terms (in millions of U.S. dollars) | ... | 633 | 567 |
| Multilateral | ... | 490 | 490 |
| Official bilateral and commercial | ... | 143 | 77 |
| Sources: Beninese authorities; and Bank/Fund staff estimates and projections. | | | |

Figure 1. Benin: Selected Economic and Financial Indicators, 1994-2005 1/
 (In percent of GDP, unless otherwise indicated)



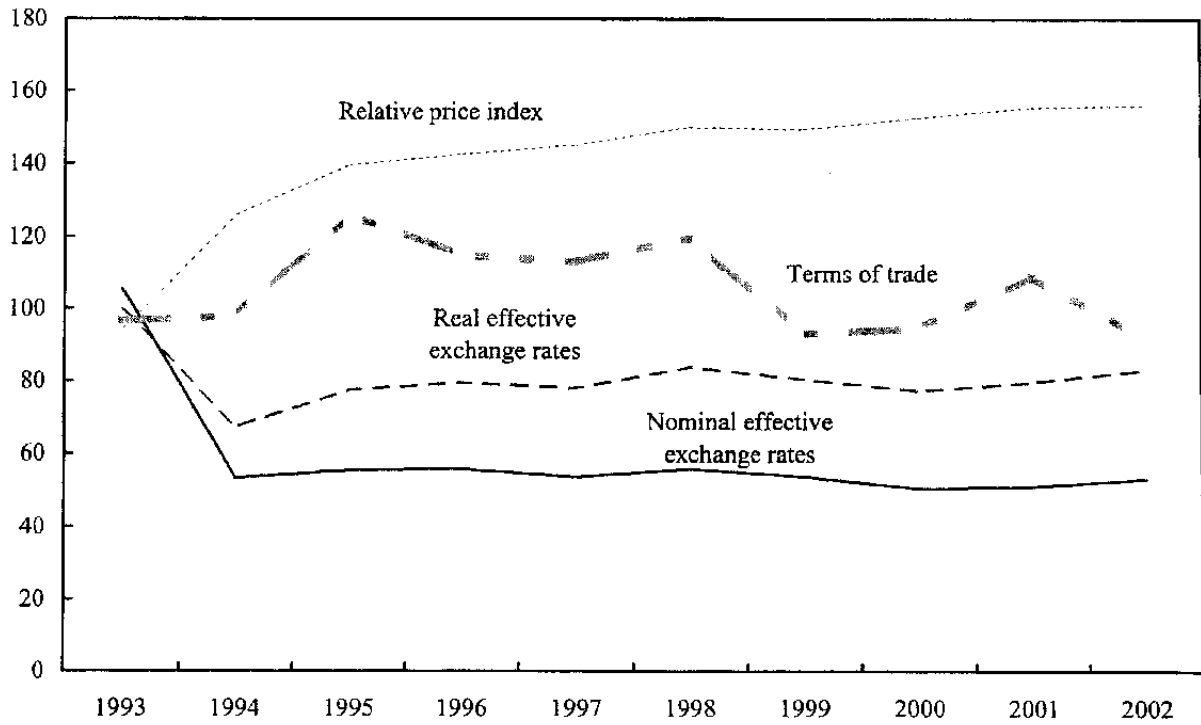
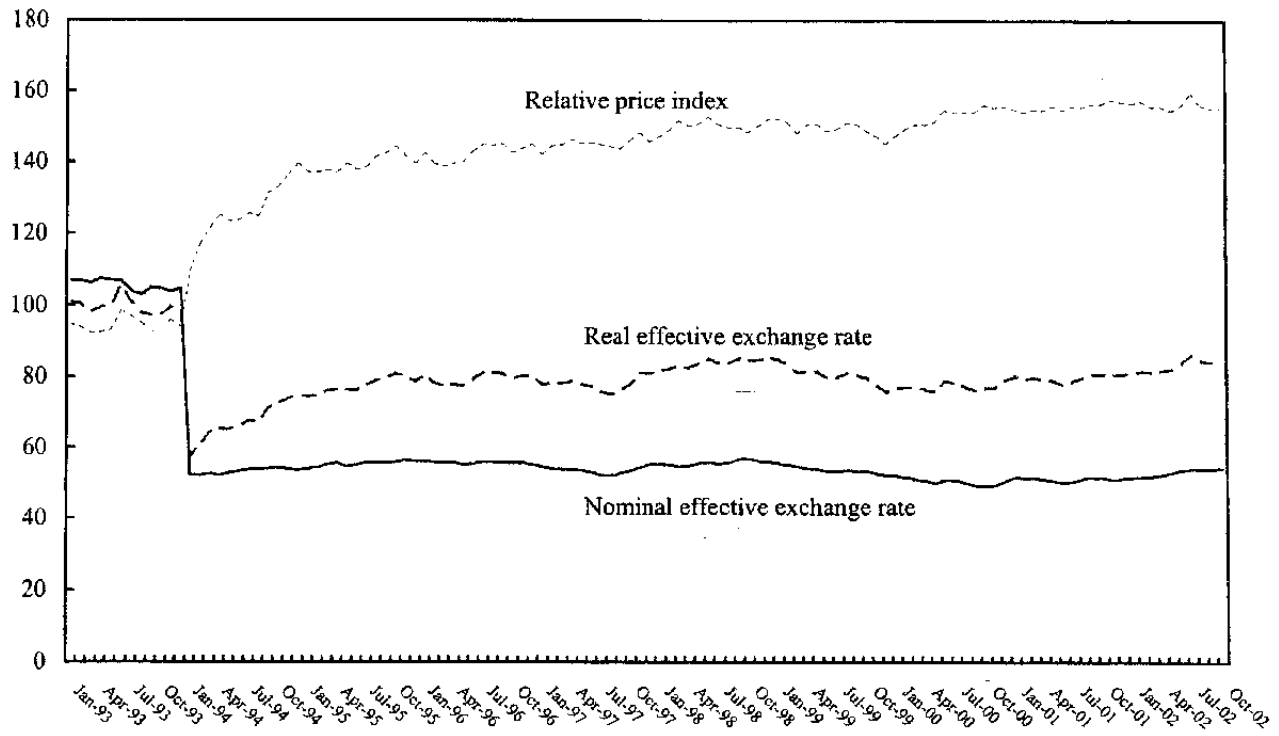
Sources: Beninese authorities; and staff estimates and projections.
 1/ 2003-05 data are projections.

Figure 2. Benin: Selected External and Monetary Indicators 1/
(In percent of GDP, unless otherwise indicated)



Sources: Beninese authorities; and staff estimates and projections.
1/ 2003-05 data are projections.

Figure 3. Benin: Effective Exchange Rates and Terms of Trade, 1993-2002
(Index, 1990 = 100)



Sources: IMF, Information Notice System (INS); and staff estimates.

Table 1. Benin: Proposed Schedule of Disbursements Under
the Remainder of the PRGF Arrangement, 2003-04

| Amount | Available Date | Conditions Necessary for Disbursement 1/ |
|------------------|-------------------|--|
| SDR 4.04 million | March 31, 2003 | Observance of the performance criteria for September 30, 2002 and completion of the fourth review under the arrangement. |
| SDR 2.69 million | July 15, 2003 | Observance of the performance criteria for March 31, 2003 and completion of the fifth review under the arrangement. |
| SDR 1.35 million | December 15, 2003 | Observance of the performance criteria for September 30, 2003 and completion of the sixth review under the arrangement. |

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement, including the continuous performance criterion on nonaccumulation of arrears, and the performance clauses on the exchange and trade system.

Table 2. Benin: Fund Position During the Remainder of the PRGF Arrangement,
January 2003-December 2005

| | 2003 | | 2004 | | 2005 | |
|--|-----------------------|---------------|---------------|---------------|---------------|---------------|
| | Jan.- June | July- Dec. | Jan.- June | July- Dec. | Jan.- June | July- Dec. |
| | (In millions of SDRs) | | | | | |
| Transactions under tranche policies (net) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Purchases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Repurchases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Structural Adjustment Facility (SAF) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Loans | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Repayments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF) | -2.28 | -2.84 | -3.38 | -4.18 | -3.57 | -2.71 |
| Loans | 4.04 | 2.69 | 1.35 | 0.00 | 0.00 | 0.00 |
| Repayments 1/ | -6.32 | -5.53 | -4.73 | -4.18 | -3.57 | -2.71 |
| Repayments (principal) | -6.10 | -5.31 | -4.53 | -3.99 | -3.44 | -2.54 |
| Repayments (interest) | -0.23 | -0.22 | -0.20 | -0.19 | -0.13 | -0.17 |
| Total Fund credit outstanding, end of period | 51.85 | 49.22 | 46.04 | 42.06 | 38.61 | 36.08 |
| Tranche policies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| SAF | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| ESAF/PRGF | 51.85 | 49.22 | 46.04 | 42.06 | 38.61 | 36.08 |
| | (In percent of quota) | | | | | |
| Total Fund credit outstanding, end of period | 83.8 | 79.5 | 74.4 | 67.9 | 62.4 | 58.3 |
| Tranche policies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| SAF | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| ESAF/PRGF | 83.8 | 79.5 | 74.4 | 67.9 | 62.4 | 58.3 |

Source: IMF, Treasurer's Department.

1/ Before enhanced HIPC debt relief

Table 3. Benin: Main Economic Indicators, 1999-2005

| | 1999 | 2000 | 2001 | 2002 | 2003 | | 2004 | | 2005 |
|---|---------|---------|---------|---------|----------|---------|----------|---------|---------|
| | | | | Est. | Prog. 1/ | Proj. | Prog. 1/ | Proj. | Proj. |
| (Annual changes in percent, unless otherwise indicated) | | | | | | | | | |
| National income | | | | | | | | | |
| GDP at current prices | 6.7 | 9.2 | 8.3 | 7.8 | 8.5 | 8.2 | 8.7 | 9.1 | 9.2 |
| GDP at constant prices | 4.7 | 5.8 | 5.0 | 5.8 | 6.0 | 5.6 | 6.5 | 6.5 | 6.5 |
| GDP deflator | 1.9 | 3.3 | 3.1 | 2.0 | 2.3 | 2.5 | 2.1 | 2.5 | 2.5 |
| Consumer price index (average) | 0.3 | 4.2 | 4.0 | 2.3 | 3.0 | 2.4 | 3.0 | 2.5 | 2.5 |
| Consumer price index (end of period) | -3.2 | 9.8 | 2.3 | 2.0 | 3.0 | 2.5 | 3.0 | 2.5 | 2.5 |
| Central government finance | | | | | | | | | |
| Revenue | 11.4 | 13.3 | 5.5 | 13.8 | 10.4 | 8.3 | 9.5 | 8.4 | 9.4 |
| Expenditure and net lending | 14.6 | 25.0 | 9.5 | 9.9 | 6.6 | 13.3 | 7.8 | 6.3 | 8.2 |
| Money and credit | | | | | | | | | |
| Net domestic assets 2/ | 3.6 | 10.5 | -10.9 | 6.9 | ... | 4.2 | ... | ... | ... |
| Domestic credit 2/ | 2.2 | 9.4 | -9.2 | 6.4 | ... | 4.2 | ... | ... | ... |
| Net claims on central government 2/ | -14.4 | 0.3 | -9.1 | 2.0 | ... | -0.6 | ... | ... | ... |
| Credit to the nongovernment sector | 52.7 | 25.5 | -0.3 | 13.2 | ... | 13.5 | ... | ... | ... |
| Broad money | 35.0 | 21.2 | 12.7 | 4.7 | ... | 8.0 | ... | ... | ... |
| Velocity (GDP relative to average M2) | 3.9 | 3.3 | 3.1 | 3.1 | ... | 3.1 | ... | ... | ... |
| External sector (in terms of CFA francs) | | | | | | | | | |
| Exports, f.o.b. | -3.0 | -3.0 | 15.3 | -4.1 | 15.8 | 15.8 | 13.3 | 14.4 | 11.8 |
| Imports, f.o.b. | 9.6 | 8.1 | 8.0 | 0.0 | 5.7 | 6.0 | 6.8 | 7.1 | 7.7 |
| Export volume | 25.1 | -11.0 | -2.8 | 19.3 | 0.5 | -9.7 | 3.7 | 10.1 | 8.7 |
| Import volume | 9.9 | 0.7 | 5.0 | 4.5 | 6.0 | 6.0 | 6.5 | 6.5 | 6.5 |
| Terms of trade | -22.2 | 1.6 | 15.4 | -16.0 | 15.6 | 28.2 | 8.8 | 3.3 | 1.7 |
| Nominal effective exchange rate (- deprec.) | -3.5 | -2.9 | 1.1 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (- deprec.) | -3.5 | 4.4 | 2.1 | ... | ... | ... | ... | ... | ... |
| (In percent of GDP, unless otherwise indicated) | | | | | | | | | |
| Basic ratios | | | | | | | | | |
| Gross investment | 17.5 | 18.9 | 19.2 | 18.1 | 19.7 | 19.5 | 19.7 | 19.7 | 19.6 |
| Government investment | 6.3 | 7.6 | 7.8 | 6.7 | 8.7 | 8.5 | 8.7 | 8.7 | 8.6 |
| Private sector investment | 11.2 | 11.3 | 11.4 | 11.4 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Gross domestic saving | 4.8 | 6.0 | 6.5 | 6.1 | 8.3 | 8.5 | 9.1 | 9.6 | 10.0 |
| Government saving | 5.5 | 4.9 | 4.4 | 3.8 | 4.9 | 4.5 | 5.2 | 5.1 | 5.2 |
| Nongovernment saving | -0.7 | 1.1 | 2.1 | 2.3 | 3.5 | 4.0 | 4.0 | 4.5 | 4.8 |
| Gross national saving 3/ | 9.9 | 10.9 | 12.5 | 9.9 | 12.6 | 12.4 | 13.5 | 13.1 | 13.3 |
| Central government finance | | | | | | | | | |
| Revenue | 16.0 | 16.6 | 16.2 | 17.1 | 16.9 | 17.1 | 17.0 | 17.0 | 17.0 |
| Expenditure and net lending | 17.6 | 20.1 | 20.3 | 20.7 | 21.5 | 21.7 | 21.3 | 21.1 | 20.9 |
| Primary balance 4/ | -0.7 | -2.6 | -3.3 | -2.8 | -3.8 | -3.8 | -3.5 | -3.5 | -3.4 |
| Overall fiscal deficit (payment order basis) 5/ | -1.6 | -3.5 | -4.2 | -3.7 | -4.5 | -4.6 | -4.2 | -4.2 | -4.0 |
| Overall fiscal deficit (cash basis) 5/ | -3.0 | -5.5 | -4.1 | -4.4 | -4.5 | -4.7 | -4.2 | -4.2 | -4.0 |
| Debt service 6/ 7/ | 17.3 | 14.4 | 9.2 | 8.1 | 6.3 | 7.0 | 5.8 | 5.3 | 5.3 |
| External sector | | | | | | | | | |
| Current account balance (- deficit) 3/ | -7.6 | -8.0 | -6.7 | -8.2 | -7.1 | -7.0 | -6.2 | -6.6 | -6.3 |
| Overall balance of payments (- deficit) | 7.6 | 3.2 | 5.4 | -1.8 | 0.0 | 0.1 | -0.7 | -0.1 | 0.1 |
| Debt-service ratio (before debt relief) | 17.1 | 18.1 | 15.7 | 16.5 | 15.6 | 15.4 | 13.8 | 12.4 | 11.3 |
| Debt-service ratio (after debt relief) 7/ | 17.1 | 15.7 | 9.8 | 9.8 | 7.2 | 8.1 | 6.5 | 6.0 | 6.0 |
| Net present value of debt-to-exports ratio (after debt relief) 8/ | 234.2 | 203.9 | 230.2 | 241.0 | 163.1 | 160.6 | 156.4 | 151.9 | 141.5 |
| Debt-to-GDP ratio (after debt relief) | 35.0 | 58.3 | 58.5 | 50.4 | 36.1 | 38.7 | 32.6 | 37.5 | 35.9 |
| Gross reserves (in months of imports) | 6.9 | 8.0 | 9.1 | 8.7 | ... | 8.2 | ... | 8.0 | 7.8 |
| Nominal GDP (in billions of CFA francs) | | | | | | | | | |
| | 1,469.9 | 1,605.4 | 1,738.6 | 1,874.6 | 2,024.8 | 2,028.5 | 2,201.5 | 2,212.5 | 2,415.8 |
| CFA francs per U.S. dollar (period average) | | | | | | | | | |
| | 615.7 | 712.0 | 728.8 | 697.8 | ... | ... | ... | ... | ... |
| Population (midyear, in millions) | | | | | | | | | |
| | 6.1 | 6.3 | 6.5 | 6.7 | 6.8 | 6.8 | 7.0 | 7.0 | 7.2 |

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/02/119 (07/15/02), except for the net present value of debt-to-exports ratios, which is based on current-year exports of goods and nonfactor services (see footnote 8 below).

2/ In percent of broad money at the beginning of the period.

3/ Including current official grants but excluding project grants.

4/ Total revenue minus all expenditure, excluding interest.

5/ Before all official grants.

6/ Scheduled debt service in percent of fiscal revenue, including IMF debt and excluding debt to be paid by HIPC Initiative assistance.

7/ For 2000-02, debt service after debt relief is the difference between the amount of debt service due and the amount of debt relief effectively received.

8/ Net present value of total debt beyond enhanced HIPC Initiative assistance, in percent of a backward-looking three-year average of exports of goods and nonfactor services.

Table 4. Benin: Macroeconomic Indicators, 1999-2005

(In percent of GDP, unless otherwise indicated)

| | 1999 | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 Proj. |
|--|---------|---------|---------|-----------------------|---------|-----------------------|---------|-----------------------|---------|---------------|
| | | | | Prog. 1/ ¹ | Est. | Prog. 1/ ¹ | Proj. | Prog. 1/ ¹ | Proj. | |
| Resource gap (1) | 12.7 | 12.9 | 12.7 | 12.5 | 12.0 | 11.4 | 10.9 | 10.6 | 10.1 | 9.6 |
| Exports of goods and nonfactor services | 16.1 | 15.2 | 15.2 | 14.4 | 14.1 | 14.9 | 14.6 | 15.1 | 14.9 | 15.0 |
| Imports of goods and nonfactor services | 28.8 | 28.1 | 27.9 | 26.9 | 26.1 | 26.2 | 25.6 | 25.7 | 25.0 | 24.6 |
| Total gross investment (2) | 17.5 | 18.9 | 19.2 | 19.3 | 18.1 | 19.7 | 19.5 | 19.7 | 19.7 | 19.6 |
| Central government investment (A) | 6.3 | 7.6 | 7.8 | 8.1 | 6.7 | 8.7 | 8.5 | 8.7 | 8.7 | 8.6 |
| Private sector investment (B) | 11.2 | 11.3 | 11.4 | 11.2 | 11.4 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Domestic saving (3) = (2) - (1) | 4.8 | 6.0 | 6.5 | 6.8 | 6.1 | 8.3 | 8.5 | 9.1 | 9.6 | 10.0 |
| National saving (6) = (3) + (4) + (5) | 9.9 | 10.9 | 12.5 | 11.0 | 9.9 | 12.6 | 12.4 | 13.5 | 13.1 | 13.3 |
| Net factor income (4) | -0.7 | -0.5 | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 | -0.8 | -0.8 | -0.7 |
| Unrequited transfers (5) | 5.8 | 5.5 | 6.9 | 5.1 | 4.7 | 5.1 | 4.8 | 5.2 | 4.3 | 4.1 |
| Government national saving (7) | 7.4 | 5.9 | 7.1 | 5.4 | 5.1 | 6.0 | 5.9 | 6.3 | 6.3 | 6.4 |
| Budget deficit | -1.6 | -3.5 | -4.2 | -5.2 | -3.7 | -4.5 | -4.6 | -4.2 | -4.2 | -4.0 |
| Government investment | 6.3 | 7.6 | 7.8 | 8.1 | 6.7 | 8.7 | 8.5 | 8.7 | 8.7 | 8.6 |
| Public transfers (current) | 2.7 | 1.8 | 3.5 | 2.5 | 2.1 | 1.9 | 2.1 | 1.8 | 1.8 | 1.8 |
| Government domestic saving (8) | 5.5 | 4.9 | 4.4 | 3.7 | 3.8 | 4.9 | 4.5 | 5.2 | 5.1 | 5.2 |
| Public transfers (current) | 2.7 | 1.8 | 3.5 | 2.5 | 2.1 | 1.9 | 2.1 | 1.8 | 1.8 | 1.8 |
| Net factor income | -0.8 | -0.8 | -0.8 | -0.8 | -0.8 | -0.7 | -0.7 | -0.6 | -0.6 | -0.6 |
| Nongovernment national saving (9) = (6) - (7) | 2.5 | 5.0 | 5.4 | 5.6 | 4.8 | 6.6 | 6.5 | 7.2 | 6.8 | 6.9 |
| Nongovernment domestic saving (10) = (3) - (8) | -0.7 | 1.1 | 2.1 | 3.1 | 2.3 | 3.5 | 4.0 | 4.0 | 4.5 | 4.8 |
| Saving-investment balance | -7.6 | -8.0 | -6.7 | -8.3 | -8.2 | -7.1 | -7.0 | -6.2 | -6.6 | -6.3 |
| Nongov. sector saving-investment balance (9) - (B) | -8.7 | -6.3 | -6.0 | -5.6 | -6.6 | -4.4 | -4.5 | -3.8 | -4.2 | -4.1 |
| Government saving-investment balance (7) - (A) | 1.1 | -1.8 | -0.6 | -2.7 | -1.6 | -2.7 | -2.5 | -2.4 | -2.4 | -2.2 |
| Nominal GDP (in billions of CFA francs) | 1,469.9 | 1,605.4 | 1,738.6 | 1,866.7 | 1,874.6 | 2,024.8 | 2,028.5 | 2,201.5 | 2,212.5 | 2,415.8 |
| Nominal GNP (in billions of CFA francs) | 1,460.3 | 1,596.7 | 1,723.0 | 1,849.0 | 1,856.8 | 2,007.3 | 2,010.6 | 2,184.1 | 2,195.5 | 2,398.8 |

Sources: Beninese authorities (Institute National de la Statistique et de l'Administration Economique (INSAE)); and staff estimates and projections.

1/ As indicated in EBS/02/119 (07/01/02).

Table 5. Benin: Consolidated Government Operations, 1999-2005

| | 1999 | 2000 | 2001 | 2002 | | | | 2003 | | 2004 | | 2005 Proj. |
|---|---------|---------|---------|-----------|-------|------------------|---------|-------------------|---------|-------------------|---------|---------------|
| | | | | September | | Prog. 1/ Est. | Est. | Prog. 1/ Proj. | Proj. | Prog. 1/ Proj. | Proj. | |
| | | | | Prog. | Est. | | | | | | | |
| (In billions of CFA francs) | | | | | | | | | | | | |
| Total revenue | 234.9 | 266.2 | 281.0 | 217.9 | 232.8 | 310.3 | 319.7 | 342.6 | 346.0 | 375.1 | 375.1 | 410.5 |
| Tax revenue | 200.8 | 234.1 | 247.1 | 195.6 | 206.9 | 273.6 | 283.0 | 303.8 | 312.4 | 335.4 | 335.5 | 367.1 |
| Tax on international trade 2/ | 106.8 | 126.7 | 133.2 | 101.9 | 107.9 | 145.2 | 149.4 | 165.0 | 170.3 | 181.2 | 181.2 | 198.3 |
| Direct and indirect taxes | 94.0 | 107.4 | 113.9 | 93.7 | 99.0 | 128.4 | 133.5 | 138.8 | 142.1 | 154.3 | 154.3 | 168.8 |
| Nontax revenue | 34.0 | 32.1 | 33.9 | 22.3 | 25.8 | 36.7 | 36.7 | 38.8 | 33.6 | 39.6 | 39.6 | 43.4 |
| Total expenditure | 258.0 | 322.5 | 353.2 | 281.7 | 251.5 | 407.4 | 388.4 | 434.3 | 440.0 | 468.1 | 467.6 | 505.9 |
| Wages | 66.2 | 74.8 | 80.7 | 64.2 | 66.2 | 89.5 | 89.5 | 96.3 | 96.7 | 101.2 | 101.2 | 107.3 |
| Pensions and scholarships | 18.3 | 19.3 | 20.5 | 16.7 | 16.7 | 22.4 | 22.6 | 23.5 | 24.4 | 24.7 | 24.7 | 24.7 |
| Current transfers | 20.5 | 26.8 | 41.5 | 48.1 | 43.9 | 67.2 | 69.0 | 53.7 | 54.0 | 61.0 | 61.0 | 66.2 |
| Of which: subsidy to the cotton sector | 0.0 | 0.0 | 0.0 | 18.0 | 18.7 | 18.0 | 18.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other expenditure | 42.4 | 64.7 | 59.6 | 41.2 | 37.2 | 59.5 | 64.2 | 70.6 | 76.3 | 74.7 | 74.7 | 85.3 |
| Investment | 92.8 | 122.5 | 135.3 | 99.6 | 75.8 | 151.1 | 125.4 | 175.9 | 171.4 | 192.4 | 192.4 | 208.2 |
| Budgetary contribution | 28.0 | 35.0 | 55.4 | 37.8 | 26.6 | 60.1 | 52.5 | 73.5 | 75.1 | 80.4 | 80.4 | 88.4 |
| Financed from abroad | 64.8 | 87.4 | 79.8 | 61.8 | 49.3 | 91.0 | 72.9 | 102.4 | 96.3 | 112.0 | 112.0 | 119.8 |
| Net lending (minus = reimbursement) | 4.5 | 0.3 | 0.4 | 1.7 | 2.0 | 1.8 | 1.8 | -0.9 | 0.0 | -0.9 | -0.9 | 0.0 |
| Primary balance (narrow definition) 3/ | 55.1 | 45.5 | 23.2 | 9.9 | 42.1 | 9.8 | 21.8 | 25.8 | 19.5 | 33.9 | 33.1 | 38.6 |
| Primary balance | -9.7 | -42.2 | -57.0 | -53.6 | -9.1 | -81.2 | -52.8 | -76.6 | -76.8 | -78.1 | -78.1 | -81.2 |
| Interest | 13.5 | 14.1 | 15.2 | 10.2 | 9.7 | 15.9 | 15.9 | 15.2 | 17.2 | 15.0 | 14.4 | 14.2 |
| Internal debt | 1.9 | 1.6 | 1.8 | 0.5 | 0.9 | 1.3 | 1.3 | 0.9 | 2.6 | 0.8 | 0.8 | 0.7 |
| External debt | 11.6 | 12.4 | 13.5 | 9.7 | 8.8 | 14.6 | 14.6 | 14.2 | 14.6 | 14.1 | 13.6 | 13.5 |
| Overall balance (payment order basis) | -23.1 | -56.3 | -72.3 | -63.8 | -18.8 | -97.1 | -68.7 | -91.7 | -94.0 | -93.0 | -92.5 | -95.4 |
| Change in arrears | -24.6 | -30.6 | -6.7 | -0.1 | -3.6 | -0.3 | -3.5 | 0.0 | -1.2 | 0.0 | 0.0 | 0.0 |
| External debt (principal and interest payments) | -13.3 | -14.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic debt 4/ | -11.3 | -15.8 | -6.7 | -0.1 | -3.6 | -0.3 | -3.5 | 0.0 | -1.2 | 0.0 | 0.0 | 0.0 |
| Payments during complementary period/float | 3.2 | -0.6 | 8.4 | -7.9 | -7.9 | -10.5 | -9.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -44.5 | -87.5 | -70.6 | -71.8 | -30.3 | -107.9 | -81.8 | -91.7 | -95.2 | -93.0 | -92.5 | -95.4 |
| Financing | 44.6 | 87.5 | 70.6 | 71.8 | 30.3 | 107.8 | 81.9 | 66.5 | 73.6 | 68.8 | 71.3 | 76.3 |
| Domestic financing | -35.8 | 13.9 | -49.0 | -1.0 | -20.7 | -2.7 | 0.9 | -13.6 | -13.3 | -19.2 | -20.3 | -21.1 |
| Bank financing | -46.3 | 1.2 | -47.8 | 8.0 | -20.0 | 8.8 | 12.4 | -4.8 | -1.8 | -11.7 | -12.8 | -15.1 |
| Net use of Fund resources | 0.6 | -2.5 | -3.0 | -3.8 | -3.5 | -3.0 | -6.6 | -6.7 | -4.8 | -7.8 | -6.0 | -4.9 |
| Disbursements | 6.1 | 6.3 | 7.5 | 3.8 | 3.8 | 7.5 | 3.8 | 3.7 | 5.6 | 0.0 | 1.1 | 0.0 |
| Repayments | -5.5 | -8.9 | -10.5 | -7.6 | -7.3 | -10.4 | -10.4 | -10.4 | -10.4 | -7.8 | -7.1 | -4.9 |
| Other | -46.9 | 3.8 | -44.7 | 11.8 | -16.5 | 11.8 | 19.0 | 1.9 | 3.1 | -4.0 | -6.9 | -10.2 |
| Nonbank financing | 10.5 | 12.6 | -1.3 | -9.0 | -0.7 | -11.5 | -11.5 | -8.8 | -11.5 | -7.5 | -7.5 | -6.0 |
| Privatization | 10.7 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Restructuring | -0.2 | 1.4 | -1.3 | -8.0 | -0.2 | -10.0 | -10.0 | -7.3 | -10.0 | -6.0 | -6.0 | -6.0 |
| Other | 0.0 | 10.3 | 0.0 | -1.0 | -0.5 | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 | 0.0 |
| External financing | 80.3 | 73.7 | 119.6 | 72.8 | 51.0 | 110.5 | 81.0 | 80.1 | 86.8 | 88.0 | 91.6 | 97.4 |
| Project financing | 63.0 | 74.4 | 79.8 | 61.7 | 54.6 | 91.0 | 78.1 | 102.4 | 96.3 | 112.0 | 112.0 | 119.8 |
| Grants | 33.9 | 25.3 | 24.5 | 30.6 | 6.3 | 44.2 | 12.6 | 49.7 | 46.7 | 54.4 | 54.4 | 59.8 |
| Loans | 29.1 | 49.1 | 55.3 | 31.1 | 48.3 | 46.8 | 65.5 | 52.7 | 49.6 | 57.6 | 57.6 | 60.0 |
| Amortization due | -23.6 | -22.9 | -17.5 | -15.7 | -15.5 | -18.6 | -18.6 | -22.3 | -20.7 | -24.0 | -20.4 | -22.4 |
| Program aid | 27.6 | 1.7 | 41.6 | 12.7 | 0.0 | 18.2 | 3.7 | 0.0 | 11.3 | 0.0 | 0.0 | 0.0 |
| Grants | 17.2 | 1.7 | 21.5 | 5.4 | 0.0 | 10.9 | 3.7 | 0.0 | 4.7 | 0.0 | 0.0 | 0.0 |
| Loans | 10.4 | 0.0 | 20.1 | 7.3 | 0.0 | 7.3 | 0.0 | 0.0 | 6.6 | 0.0 | 0.0 | 0.0 |
| Debt relief obtained 5/ | 13.3 | 20.5 | 15.7 | 14.1 | 11.9 | 19.9 | 17.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.2 | 21.6 | 24.3 | 21.2 | 19.1 |
| Possible HIPC assistance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.2 | 21.6 | 24.3 | 21.2 | 19.1 |
| Residual financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (In percent of GDP, unless otherwise indicated) | | | | | | | | | | | | |
| Memorandum items: | | | | | | | | | | | | |
| Total revenue and grants | 19.5 | 18.3 | 18.8 | ... | ... | 19.6 | 17.9 | 19.4 | 19.6 | 19.5 | 19.4 | 19.5 |
| Grants | 3.5 | 1.7 | 2.6 | ... | ... | 3.0 | 0.9 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Total revenue | 16.0 | 16.6 | 16.2 | ... | ... | 16.6 | 17.1 | 16.9 | 17.1 | 17.0 | 17.0 | 17.0 |
| Total expenditure | 17.6 | 20.1 | 20.3 | ... | ... | 21.8 | 20.7 | 21.5 | 21.7 | 21.3 | 21.1 | 20.9 |
| Of which | | | | | | | | | | | | |
| Wages | 4.5 | 4.7 | 4.6 | ... | ... | 4.8 | 4.8 | 4.8 | 4.8 | 4.6 | 4.6 | 4.4 |
| Public investment | 6.3 | 7.6 | 7.8 | ... | ... | 8.1 | 6.7 | 8.7 | 8.5 | 8.7 | 8.7 | 8.6 |
| Social expenditure 6/ | 4.8 | 4.8 | 6.2 | ... | ... | 5.8 | 5.1 | ... | 6.2 | ... | ... | ... |
| Overall balance (payment order basis, excl. grants) | -1.6 | -3.5 | -4.2 | ... | ... | -5.2 | -3.7 | -4.5 | -4.6 | -4.2 | -4.2 | -4.0 |
| Excluding HIPC-financed expenditure | -1.6 | -3.3 | -3.2 | ... | ... | -4.3 | -2.7 | -3.5 | -3.7 | -3.3 | -3.3 | -3.2 |
| Overall balance (payment order basis, incl. grants) | 1.9 | -1.8 | -1.5 | ... | ... | -2.2 | -2.8 | -2.1 | -2.1 | -1.8 | -1.7 | -1.5 |
| Primary balance (narrow definition) | 4.1 | 2.8 | 1.3 | ... | ... | 0.6 | 1.2 | 1.2 | 1.0 | 1.5 | 1.5 | 1.6 |
| Excluding HIPC-financed expenditure | 4.1 | 3.1 | 2.3 | ... | ... | 1.5 | 2.1 | 2.2 | 1.9 | 2.4 | 2.4 | 2.3 |
| Primary balance | -0.7 | -2.6 | -3.3 | ... | ... | -4.3 | -2.8 | -3.8 | -3.8 | -3.5 | -3.5 | -3.4 |
| GDP (in billions of CFA francs) | 1,469.9 | 1,605.4 | 1,738.6 | ... | ... | 1,866.7 | 1,874.6 | 2,024.8 | 2,028.5 | 2,201.5 | 2,212.5 | 2,415.8 |

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/02/119 (07/01/02).

2/ Including value-added taxes on imports.

3/ Total revenue minus total expenditure, excluding investment financed from abroad, interest payments and net lending.

4/ In 2003, a provision of CFAF 1.2 billions was made in the budget to cover potential payments for debt in litigation.

5/ Includes confirmed interim HIPC Initiative assistance from Paris Club members, the African Development Bank/Fund, the West African Development Bank, the World Bank, the European Union, the International Monetary Fund, and China.

6/ Comprises health and education expenditures (see Table 13). The government is in the process of broadening the classification to all poverty-related expenditures.

Table 6. Benin: Monetary Survey, 1999-2003

| | 1999 | 2000 | 2001 | 2002 | | | | 2003 | | | | |
|--|--|---------|---------|-------|-------|-------|--------------|-------|-------|-------|---------|--|
| | | | | March | June | Sep. | Dec. Est. | March | June | Sep. | Dec. | |
| | (In billions of CFA francs) | | | | | | | | | | | |
| Net foreign assets | 306.3 | 352.7 | 476.8 | 466.6 | 422.8 | 436.2 | 464.1 | 474.1 | 469.1 | 477.0 | 487.7 | |
| Central Bank of West African States (BCEAO) | 203.8 | 261.5 | 371.2 | 358.3 | 321.7 | 319.7 | 355.5 | 365.5 | 360.5 | 368.4 | 379.1 | |
| Banks | 102.5 | 91.2 | 105.6 | 108.3 | 101.1 | 116.5 | 108.6 | 108.6 | 108.6 | 108.6 | 108.6 | |
| Net domestic assets | 127.3 | 172.9 | 115.7 | 107.5 | 116.4 | 111.7 | 156.4 | 156.1 | 173.1 | 164.6 | 182.1 | |
| Domestic credit | 141.0 | 181.7 | 133.4 | 117.8 | 128.4 | 133.5 | 171.1 | 170.8 | 187.8 | 179.3 | 196.8 | |
| Net claims on central government | -13.6 | -12.3 | -60.1 | -65.0 | -82.1 | -73.8 | -48.0 | -54.2 | -52.2 | -46.7 | -51.7 | |
| Credit to the nongovernment sector | 154.6 | 194.0 | 193.5 | 182.8 | 210.7 | 207.9 | 219.1 | 225.0 | 240.0 | 226.0 | 248.5 | |
| Other items (net) | -13.8 | -8.8 | -17.7 | -10.3 | -12.0 | -21.8 | -14.7 | -14.7 | -14.7 | -14.7 | -14.7 | |
| Broad money (M2) | 433.6 | 525.6 | 592.5 | 574.1 | 539.2 | 547.9 | 620.5 | 630.2 | 642.2 | 641.6 | 669.8 | |
| Currency | 164.5 | 211.2 | 223.8 | 210.3 | 182.1 | 186.0 | 229.6 | 233.2 | 237.6 | 237.4 | 247.8 | |
| Bank deposits | 263.8 | 308.3 | 360.1 | 355.6 | 349.2 | 354.3 | 381.7 | 388.0 | 396.7 | 394.3 | 412.0 | |
| Deposits with CCP 1/ | 5.2 | 6.1 | 8.6 | 8.2 | 7.9 | 7.6 | 9.2 | 9.0 | 7.9 | 9.9 | 10.0 | |
| | (Annual changes in percent of beginning-of-period broad money, unless otherwise indicated) | | | | | | | | | | | |
| Net foreign assets | 31.4 | 10.7 | 23.6 | -1.7 | -9.1 | -6.9 | -2.1 | 0.8 | 3.4 | 1.7 | 3.8 | |
| Net domestic assets | 3.6 | 10.5 | -10.9 | -1.4 | 0.1 | -0.7 | 6.9 | 1.9 | 2.9 | 3.1 | 4.2 | |
| Domestic credit | 2.2 | 9.4 | -9.2 | -2.6 | -0.8 | 0.0 | 6.4 | 0.4 | 1.4 | 1.6 | 4.2 | |
| Net claims on government | -14.4 | 0.3 | -9.1 | -0.8 | -3.7 | -2.3 | 2.0 | -0.7 | -0.5 | 1.4 | -0.6 | |
| Credit to nongovernment sector | 16.6 | 9.1 | -0.1 | -1.8 | 2.9 | 2.4 | 4.3 | 1.0 | 1.9 | 0.3 | 4.8 | |
| Broad money (percentage change over beginning of period) | 35.0 | 21.2 | 12.7 | -3.1 | -9.0 | -7.5 | 4.7 | 2.7 | 6.3 | 4.8 | 8.0 | |
| Velocity of broad money (GDP relative to average M2) | 3.9 | 3.3 | 3.1 | ... | ... | ... | 3.1 | ... | ... | ... | 3.1 | |
| Credit to the nongovernment sector (annual change in percent) | 52.7 | 25.5 | -0.3 | -9.4 | 7.6 | 19.3 | 13.2 | -1.0 | 4.5 | 11.9 | 13.5 | |
| Nominal GDP (in billions of CFA francs) | 1,469.9 | 1,605.4 | 1,738.6 | 0.0 | 0.0 | 0.0 | 1,874.6 | ... | ... | ... | 2,028.5 | |

Sources: BCEAO; and staff estimates and projections.

1/ CCP = Comptes Chèques Postaux.

Table 7. Benin: Balance of Payments, 1999-2005

| | 1999 | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 Proj. |
|---|---------------------|--------|--------|----------|--------|----------|--------|----------|--------|---------------|
| | | | | Prog. 1/ | Est. | Prog. 1/ | Proj. | Prog. 1/ | Proj. | |
| (In billions of CFA francs) | | | | | | | | | | |
| Trade balance | -154.3 | -181.9 | -186.8 | -198.8 | -193.0 | -195.0 | -190.3 | -197.1 | -191.2 | -198.2 |
| Exports, f.o.b. | 137.0 | 132.9 | 153.2 | 150.6 | 146.9 | 174.5 | 170.2 | 197.6 | 194.8 | 217.7 |
| Cotton and textiles | 114.2 | 107.3 | 115.9 | 109.6 | 105.7 | 130.9 | 115.0 | 150.6 | 127.3 | 141.4 |
| Oil | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 21.9 | 25.6 | 37.3 | 41.0 | 41.2 | 43.6 | 55.2 | 47.0 | 67.5 | 76.3 |
| Imports, f.o.b. | -291.2 | -314.8 | -340.1 | -349.4 | -339.9 | -369.5 | -360.4 | -394.7 | -386.0 | -415.9 |
| Of which | | | | | | | | | | |
| Petroleum products | -34.4 | -46.8 | -40.1 | -43.6 | -42.0 | -43.8 | -43.4 | -44.5 | -41.4 | -38.6 |
| Services (net) | -32.2 | -25.8 | -34.1 | -34.3 | -31.5 | -34.9 | -31.0 | -36.4 | -32.4 | -34.7 |
| Credit | 100.3 | 110.9 | 110.8 | 117.7 | 117.8 | 126.3 | 126.9 | 135.0 | 135.3 | 144.3 |
| Debit | -132.5 | -136.6 | -144.9 | -152.0 | -149.3 | -161.2 | -157.9 | -171.4 | -167.6 | -179.0 |
| Income (net) | -9.6 | -8.7 | -15.6 | -17.7 | -17.8 | -17.5 | -17.8 | -17.5 | -17.0 | -17.0 |
| Of which | | | | | | | | | | |
| Interest due on government debt | -11.6 | -12.4 | -13.5 | -14.6 | -14.6 | -14.2 | -14.6 | -14.1 | -13.6 | -13.5 |
| Current transfers (net) | 84.9 | 87.6 | 120.6 | 95.8 | 88.4 | 103.9 | 96.4 | 113.6 | 94.8 | 98.0 |
| Unrequited private transfers | 45.3 | 59.5 | 59.5 | 49.6 | 49.5 | 66.1 | 53.9 | 73.7 | 54.8 | 55.7 |
| Public current transfers | 39.6 | 28.1 | 61.1 | 46.2 | 38.9 | 37.8 | 42.5 | 40.0 | 40.0 | 42.4 |
| Of which | | | | | | | | | | |
| Program grants | 17.2 | 1.7 | 21.5 | 10.9 | 3.7 | 0.0 | 4.7 | 0.0 | 0.0 | 0.0 |
| Current account | -111.1 | -128.8 | -116.0 | -155.0 | -153.9 | -143.5 | -142.8 | -137.4 | -145.8 | -151.9 |
| Capital account | 40.9 | 32.3 | 31.8 | 51.6 | 20.0 | 57.3 | 54.3 | 62.3 | 62.3 | 68.0 |
| Official project grants | 40.9 | 32.3 | 31.8 | 51.6 | 20.0 | 57.3 | 54.3 | 62.3 | 62.3 | 68.0 |
| Debt cancellation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account (net) | 181.3 | 148.4 | 178.2 | 90.5 | 100.4 | 86.5 | 90.5 | 60.7 | 82.4 | 86.8 |
| Medium- and long-term public capital | 19.1 | 29.5 | 61.3 | 39.0 | 50.4 | 34.0 | 39.1 | 37.3 | 40.9 | 41.4 |
| Disbursements | 42.7 | 52.4 | 78.8 | 57.6 | 69.0 | 56.3 | 59.8 | 61.3 | 61.3 | 63.8 |
| Project loans | 32.3 | 52.4 | 58.7 | 50.3 | 69.0 | 56.3 | 53.2 | 61.3 | 61.3 | 63.8 |
| Program loans | 10.4 | 0.0 | 20.1 | 7.3 | 0.0 | 0.0 | 6.6 | 0.0 | 0.0 | 0.0 |
| Amortization due | -23.6 | -22.9 | -17.5 | -18.6 | -18.6 | -22.3 | -20.7 | -24.0 | -20.4 | -22.4 |
| Medium- and long-term private capital | 47.5 | 53.2 | 35.1 | 30.4 | 30.4 | 49.3 | 48.7 | 39.6 | 39.8 | 43.5 |
| Deposit money banks | 10.2 | 11.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term capital | 16.2 | -1.6 | 88.1 | 21.0 | 19.6 | 3.2 | 2.7 | -16.2 | 1.6 | 1.9 |
| Errors and omissions | 88.3 | 56.0 | -6.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 111.1 | 52.0 | 94.0 | -12.9 | -33.5 | 0.4 | 2.0 | -14.4 | -1.2 | 2.9 |
| Financing | -111.1 | -52.0 | -94.0 | 12.9 | 33.5 | -25.6 | -23.6 | -9.9 | -20.0 | -22.0 |
| Change in net foreign assets (- increase) | -111.1 | -57.7 | -109.7 | -7.0 | 15.7 | -25.6 | -23.6 | -9.9 | -20.0 | -22.0 |
| Of which | | | | | | | | | | |
| Net use of Fund resources | 0.6 | -2.5 | -3.0 | -3.0 | -6.6 | -6.7 | -4.8 | -7.8 | -6.0 | -4.9 |
| Loans | 6.1 | 6.3 | 7.5 | 7.5 | 3.8 | 3.7 | 5.6 | 0.0 | 1.1 | 0.0 |
| Repayments | -5.5 | -8.9 | -10.5 | -10.4 | -10.4 | -10.4 | -10.4 | -7.8 | -7.1 | -4.9 |
| Change in external arrears (+ increase) | -13.3 | -14.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | 0.0 | -4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | -13.3 | -9.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt relief obtained 2/ | 13.3 | 20.5 | 15.7 | 19.9 | 17.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.2 | 21.6 | 24.3 | 21.2 | 19.1 |
| Possible HIPC assistance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.2 | 21.6 | 24.3 | 21.2 | 19.1 |
| Remaining financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | (In percent of GDP) | | | | | | | | | |
| Exports | 9.3 | 8.3 | 8.8 | 8.1 | 7.8 | 8.6 | 8.4 | 9.0 | 8.8 | 9.0 |
| Imports | 19.8 | 19.6 | 19.6 | 18.7 | 18.1 | 18.2 | 17.8 | 17.9 | 17.4 | 17.2 |
| Current account, including program grants | -7.6 | -8.0 | -6.7 | -8.3 | -8.2 | -7.1 | -7.0 | -6.2 | -6.6 | -6.3 |
| Current account, excluding program grants | -8.7 | -8.1 | -7.9 | -8.9 | -8.4 | -7.1 | -7.3 | -6.2 | -6.6 | -6.3 |
| (Annual changes in percent) | | | | | | | | | | |
| Volume of exports | 25.1 | -11.0 | -2.8 | 18.1 | 19.3 | 0.5 | -9.7 | 3.7 | 10.1 | 8.7 |
| Of which | | | | | | | | | | |
| Cotton products | 31.6 | -11.1 | -3.2 | 13.6 | 14.0 | 0.0 | -18.7 | 3.5 | 7.3 | 7.8 |
| Export unit price | -22.4 | 9.0 | 18.6 | -16.7 | -19.6 | 15.2 | 28.2 | 9.2 | 3.9 | 2.9 |
| Of which | | | | | | | | | | |
| Ginned cotton | -26.1 | 5.5 | 11.7 | -16.8 | -21.6 | 16.3 | 17.4 | 10.2 | 13.6 | 2.6 |
| Volume of imports | 9.9 | 0.7 | 5.0 | 4.7 | 4.5 | 6.0 | 6.0 | 6.5 | 6.5 | 6.5 |
| Import unit price | -0.3 | 7.3 | 2.8 | -1.9 | -4.4 | -0.3 | 0.0 | 0.3 | 0.6 | 1.1 |

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/02/119 (07/01/02).

2/ Includes confirmed interim enhanced HIPC assistance from Paris Club members, the African Development Bank/Fund, the West African Development Bank, the World Bank, the European Union, the International Monetary Fund, and China.

Table 8. Benin: Balance of Payments, 1999-2005

(In millions of U.S. dollars)

| | 1999 | 2000 | 2001 | 2002 | | 2003 | | 2004 | | 2005 Proj. |
|---|--------|--------|--------|------------------|--------|-------------------|--------|-------------------|--------|---------------|
| | | | | Prog. 1/ Est. | Est. | Prog. 1/ Proj. | Proj. | Prog. 1/ Proj. | Proj. | |
| Trade balance | -250.9 | -258.0 | -256.3 | -272.8 | -276.6 | -270.6 | -290.1 | -273.4 | -291.5 | -305.1 |
| Exports, f.o.b. | 222.8 | 188.5 | 210.3 | 206.7 | 210.5 | 242.0 | 259.4 | 274.1 | 296.9 | 335.2 |
| Cotton and textiles | 185.7 | 152.2 | 159.1 | 150.4 | 151.5 | 181.6 | 175.3 | 208.9 | 194.0 | 217.7 |
| Oil | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 35.6 | 36.3 | 51.2 | 56.3 | 59.0 | 60.4 | 84.1 | 65.3 | 102.9 | 117.5 |
| Imports, f.o.b. | -473.7 | -446.5 | -466.6 | -479.4 | -487.1 | -512.6 | -549.5 | -547.6 | -588.5 | -640.4 |
| Of which | | | | | | | | | | |
| Petroleum products | -56.0 | -66.4 | -55.0 | -59.9 | -60.1 | -60.7 | -66.2 | -61.7 | -63.2 | -59.5 |
| Services (net) | -52.4 | -36.5 | -46.8 | -47.0 | -45.2 | -48.4 | -47.3 | -50.5 | -49.3 | -53.4 |
| Credit | 163.2 | 157.2 | 152.0 | 161.5 | 168.8 | 175.2 | 193.4 | 187.3 | 206.2 | 222.2 |
| Debit | -215.5 | -193.8 | -198.8 | -208.5 | -214.0 | -223.6 | -240.7 | -237.8 | -255.5 | -275.6 |
| Income (net) | -15.6 | -12.3 | -21.4 | -24.3 | -25.5 | -24.3 | -27.2 | -24.3 | -25.9 | -26.2 |
| Of which | | | | | | | | | | |
| Interest due on government debt | -18.9 | -17.5 | -18.5 | -20.0 | -21.0 | -19.7 | -22.2 | -19.6 | -20.7 | -20.8 |
| Current transfers (net) | 138.2 | 124.3 | 165.4 | 131.4 | 126.7 | 144.1 | 146.9 | 157.7 | 144.5 | 151.0 |
| Unrequited private transfers | 73.7 | 84.4 | 81.6 | 68.0 | 70.9 | 91.7 | 82.1 | 102.2 | 83.5 | 85.7 |
| Public current transfers | 64.5 | 39.9 | 83.8 | 63.4 | 55.8 | 52.4 | 64.8 | 55.5 | 61.0 | 65.2 |
| Current account | -180.8 | -182.6 | -159.2 | -212.7 | -220.6 | -199.1 | -217.7 | -190.6 | -222.3 | -233.8 |
| Capital account | 66.6 | 45.8 | 43.6 | 70.8 | 28.7 | 79.6 | 82.9 | 86.4 | 94.9 | 104.6 |
| Official project grants | 66.6 | 45.8 | 43.6 | 70.8 | 28.7 | 79.6 | 82.9 | 86.4 | 94.9 | 104.6 |
| Debt cancellation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account (net) | 294.9 | 210.5 | 244.6 | 124.2 | 143.9 | 120.0 | 137.9 | 84.2 | 125.6 | 133.7 |
| Medium- and long-term public capital | 31.1 | 41.8 | 84.1 | 53.5 | 72.3 | 47.2 | 59.6 | 51.7 | 62.4 | 63.8 |
| Disbursements | 69.5 | 74.3 | 108.1 | 79.0 | 98.9 | 78.1 | 91.1 | 85.1 | 93.5 | 98.3 |
| Project loans | 52.6 | 74.3 | 80.5 | 69.0 | 98.9 | 78.1 | 81.1 | 85.1 | 93.5 | 98.3 |
| Program loans | 16.9 | 0.0 | 27.6 | 10.0 | 0.0 | 0.0 | 10.0 | 0.0 | 0.0 | 0.0 |
| Amortization due | -38.4 | -32.4 | -24.0 | -25.5 | -26.6 | -30.9 | -31.6 | -33.3 | -31.1 | -34.5 |
| Medium- and long-term private capital | 77.3 | 75.5 | 48.2 | 41.7 | 43.6 | 68.4 | 74.2 | 55.0 | 60.6 | 67.0 |
| Deposit money banks | 16.6 | 16.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term capital | 26.3 | -2.3 | 120.9 | 28.8 | 28.1 | 4.4 | 4.1 | -22.5 | 2.5 | 2.9 |
| Errors and omissions | 143.6 | 79.5 | -8.6 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 180.7 | 73.7 | 129.0 | -17.7 | -48.0 | 0.5 | 3.1 | -19.9 | -1.8 | 4.5 |
| Financing | -180.7 | -73.7 | -129.0 | 17.7 | 48.0 | -35.5 | -36.0 | -13.7 | -30.5 | -33.9 |
| Change in net foreign assets (- increase) | -180.7 | -81.8 | -150.5 | -9.6 | 22.5 | -35.5 | -36.0 | -13.7 | -30.5 | -33.9 |
| Of which | | | | | | | | | | |
| Net use of Fund resources | 1.0 | -3.6 | -4.2 | -4.1 | -9.5 | -9.3 | -7.3 | -10.8 | -9.1 | -7.6 |
| Loans | 9.9 | 9.0 | 10.2 | 10.2 | 5.4 | 5.1 | 8.5 | 0.0 | 1.7 | 0.0 |
| Repayments | -8.9 | -12.6 | -14.4 | -14.3 | -14.9 | -14.4 | -15.9 | -10.8 | -10.8 | -7.6 |
| Change in external arrears (+ increase) | -21.6 | -21.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | 0.0 | -7.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | -21.6 | -14.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt relief obtained 2/ | 21.6 | 29.0 | 21.5 | 27.3 | 25.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 35.0 | 32.9 | 33.7 | 32.3 | 29.4 |
| Possible HIPC assistance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 35.0 | 32.9 | 33.7 | 32.3 | 29.4 |
| Remaining financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/02/119 (07/01/02).

2/ Includes confirmed interim enhanced HIPC assistance from Paris Club members, the African Development Bank/Fund, the West African Development Bank, the World Bank, the European Union, the International Monetary Fund, and China.

Table 9. Benin: External Debt and Scheduled Debt Service, 1999-2005

(In billions of CFA francs)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|-------|-------|--------|-------|-------------|-------|---------|
| | | | | Est. | Projections | | |
| Total debt service due 1/ | 40.7 | 44.1 | 41.5 | 43.6 | 45.7 | 41.1 | 40.8 |
| Interest | 11.6 | 12.4 | 13.5 | 14.6 | 14.6 | 13.6 | 13.5 |
| Principal | 29.1 | 31.7 | 28.0 | 29.0 | 31.1 | 27.5 | 27.3 |
| On disbursed debt at end-2001 | 40.7 | 44.1 | 41.5 | 42.8 | 44.3 | 39.2 | 38.4 |
| Multilaterals (excluding IMF) | 18.1 | 21.0 | 23.0 | 24.3 | 25.6 | 23.1 | 23.4 |
| IMF | 5.7 | 9.1 | 10.8 | 10.7 | 10.6 | 7.2 | 5.0 |
| Paris Club | 11.0 | 10.8 | 6.2 | 6.3 | 6.7 | 7.1 | 7.3 |
| Other bilaterals | 5.6 | 3.1 | 1.4 | 1.5 | 1.4 | 1.8 | 2.6 |
| Short-term debt | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | 11.6 | 12.4 | 13.5 | 13.8 | 13.2 | 11.7 | 11.1 |
| Multilaterals (excluding IMF) | 6.0 | 6.6 | 7.3 | 8.1 | 8.0 | 6.6 | 6.2 |
| IMF | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 |
| Paris Club | 4.8 | 5.0 | 5.3 | 4.8 | 4.5 | 4.3 | 4.2 |
| Other bilaterals | 0.3 | 0.4 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Short-term debt | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | 29.1 | 31.7 | 28.0 | 29.0 | 31.1 | 27.5 | 27.3 |
| Multilaterals (excluding IMF) | 12.1 | 14.4 | 15.7 | 16.3 | 17.7 | 16.5 | 17.2 |
| IMF | 5.5 | 8.9 | 10.5 | 10.4 | 10.4 | 7.1 | 4.9 |
| Paris Club | 6.2 | 5.8 | 0.9 | 1.4 | 2.2 | 2.7 | 3.1 |
| Other bilaterals | 5.2 | 2.6 | 0.8 | 0.9 | 0.8 | 1.2 | 2.1 |
| Short-term debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt service on new disbursements | 0.0 | 0.0 | 0.0 | 0.8 | 1.3 | 1.9 | 2.4 |
| Interest | 0.0 | 0.0 | 0.0 | 0.8 | 1.3 | 1.9 | 2.4 |
| Principal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total debt relief 2/ | 13.3 | 20.5 | 15.7 | 17.8 | 21.6 | 21.2 | 19.1 |
| Interest | 6.7 | 6.8 | 5.2 | 7.7 | 5.5 | 6.8 | 5.9 |
| Principal | 6.6 | 13.7 | 10.5 | 10.0 | 16.0 | 14.4 | 13.2 |
| Repayment of arrears | 13.3 | 14.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | 6.7 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Principal | 6.6 | 9.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total debt service after debt relief | 40.7 | 38.4 | 25.8 | 25.9 | 24.1 | 19.9 | 21.7 |
| Interest | 11.6 | 10.5 | 8.2 | 6.9 | 9.0 | 6.8 | 7.6 |
| Principal | 29.1 | 27.9 | 17.6 | 19.0 | 15.1 | 13.1 | 14.1 |
| Debt outstanding, before traditional relief | 817.1 | 936.7 | 1017.9 | 994.5 | 966.9 | 996.6 | 1,018.4 |
| Debt outstanding, after debt relief beyond enhanced HIPC | 808.2 | 936.7 | 1017.3 | 944.5 | 785.0 | 830.8 | 868.4 |
| Net present value (NPV) of debt before traditional relief | 547.6 | 541.7 | 624.9 | 610.2 | 582.7 | 590.9 | 596.6 |
| NPV of debt after debt relief beyond enhanced HIPC | 543.1 | 541.7 | 611.9 | 609.4 | 419.4 | 443.6 | 463.4 |

Sources: Beninese authorities; and staff estimates and projections.

1/ Before debt relief.

2/ Includes enhanced HIPC relief and relief beyond enhanced HIPC.

Table 10. Benin: External Debt Sensitivity Analysis, 2001-21 1/
(In percent)

| | 2001 Actual | 2002 Est. | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2015 | 2020 | 2021 | 2001-11 | 2012-21 |
|--|----------------|--------------|-------|-------|-------|-------|-------|-------|-------------|-------|-------|-------|-------|-------|-------|----------|---------|
| | | | | | | | | | Projections | | | | | | | Averages | |
| Baseline scenario | | | | | | | | | | | | | | | | | |
| NPV of debt-to-exports ratio 2/ | 230.2 | 241.0 | 160.6 | 152.0 | 141.5 | 135.2 | 130.2 | 126.9 | 123.1 | 119.2 | 115.3 | 111.8 | 99.8 | 80.7 | 79.1 | 144.5 | 94.4 |
| Debt service-to-exports ratio 2/ | ... | 10.5 | 7.8 | 7.5 | 7.5 | 7.5 | 7.2 | 7.3 | 7.5 | 7.6 | 7.2 | 6.8 | 7.4 | 6.9 | 7.3 | 7.8 | 7.1 |
| Debt service-to-revenue ratio 3/ | ... | 8.7 | 6.7 | 6.6 | 6.7 | 6.7 | 6.4 | 6.3 | 6.5 | 6.6 | 6.2 | 5.9 | 6.6 | 6.2 | 6.0 | 6.7 | 6.2 |
| Grant element in total debt | 61.4 | 64.6 | 56.1 | 55.9 | 55.8 | 55.6 | 55.5 | 55.5 | 55.4 | 55.3 | 55.2 | 55.2 | 55.0 | 54.5 | 54.4 | 56.5 | 54.8 |
| Grant element in new debt | ... | 60.2 | 61.2 | 60.6 | 59.8 | 59.1 | 58.5 | 57.8 | 57.2 | 56.6 | 56.0 | 55.4 | 53.7 | 51.4 | 51.0 | 58.7 | 53.0 |
| Alternative scenario I - lower cotton export revenue 4/ | | | | | | | | | | | | | | | | | |
| NPV of debt-to-exports ratio 2/ | 230.3 | 241.3 | 160.7 | 160.0 | 156.0 | 156.7 | 155.2 | 155.2 | 154.3 | 152.6 | 150.6 | 149.0 | 141.6 | 127.9 | 125.0 | 164.3 | 137.5 |
| Debt service-to-exports ratio 2/ | ... | 10.5 | 7.7 | 8.1 | 8.2 | 8.4 | 8.1 | 8.2 | 8.4 | 8.7 | 8.2 | 7.9 | 8.8 | 8.6 | 8.5 | 8.5 | 8.5 |
| Debt service-to-revenue ratio 3/ | ... | 8.6 | 6.6 | 6.6 | 6.7 | 6.8 | 6.6 | 6.5 | 6.7 | 6.9 | 6.5 | 6.3 | 7.1 | 7.1 | 7.0 | 6.9 | 6.9 |
| Grant element in total debt | 61.4 | 64.6 | 56.1 | 55.9 | 55.8 | 55.6 | 55.5 | 55.5 | 55.4 | 55.3 | 55.2 | 55.2 | 55.0 | 54.5 | 54.4 | 56.5 | 54.8 |
| Grant element in new debt | ... | 62.2 | 62.2 | 61.2 | 60.4 | 59.7 | 59.0 | 58.3 | 57.7 | 57.1 | 56.4 | 55.8 | 54.1 | 52.0 | 51.6 | 59.4 | 53.5 |
| Alternative scenario II - lower project grants 5/ | | | | | | | | | | | | | | | | | |
| NPV of debt-to-exports ratio 2/ | 230.2 | 241.3 | 161.6 | 154.8 | 145.8 | 141.4 | 138.1 | 136.5 | 134.6 | 132.5 | 130.1 | 128.0 | 119.4 | 104.4 | 101.2 | 151.7 | 114.9 |
| Debt service-to-exports ratio 2/ | ... | 10.5 | 7.7 | 7.5 | 7.5 | 7.6 | 7.4 | 7.4 | 7.6 | 7.8 | 7.4 | 7.1 | 7.9 | 7.5 | 7.4 | 7.8 | 7.5 |
| Debt service-to-revenue ratio 3/ | ... | 8.6 | 6.6 | 6.6 | 6.7 | 6.7 | 6.5 | 6.4 | 6.6 | 6.8 | 6.4 | 6.1 | 6.9 | 6.7 | 6.7 | 6.8 | 6.6 |
| Grant element in total debt | 61.4 | 64.6 | 56.1 | 55.9 | 55.8 | 55.6 | 55.5 | 55.5 | 55.4 | 55.3 | 55.2 | 55.2 | 55.0 | 54.5 | 54.4 | 56.5 | 54.8 |
| Grant element in new debt | ... | 62.2 | 62.2 | 61.2 | 60.3 | 59.6 | 58.9 | 58.2 | 57.6 | 56.9 | 56.3 | 55.7 | 54.0 | 51.8 | 51.3 | 59.3 | 53.4 |
| Alternative scenario III - higher public expenditure 6/ | | | | | | | | | | | | | | | | | |
| NPV of debt-to-exports ratio 2/ | 230.2 | 240.9 | 163.8 | 157.5 | 147.0 | 143.2 | 140.4 | 138.8 | 137.4 | 135.6 | 134.3 | 132.9 | 125.6 | 111.5 | 108.6 | 153.9 | 121.3 |
| Debt service-to-exports ratio 2/ | ... | 10.4 | 7.8 | 7.5 | 7.4 | 7.5 | 7.3 | 7.2 | 7.5 | 7.7 | 7.3 | 7.0 | 7.7 | 7.4 | 7.3 | 7.8 | 7.4 |
| Debt service-to-revenue ratio 3/ | ... | 8.6 | 6.7 | 6.5 | 6.5 | 6.8 | 6.6 | 6.6 | 6.8 | 7.0 | 6.6 | 6.4 | 7.3 | 7.2 | 7.2 | 6.9 | 7.0 |
| Grant element in total debt | 61.4 | 64.6 | 56.1 | 55.9 | 55.8 | 55.6 | 55.5 | 55.5 | 55.4 | 55.3 | 55.2 | 55.2 | 55.0 | 54.5 | 54.4 | 56.5 | 54.8 |
| Grant element in new debt | 0.0 | 62.2 | 63.0 | 61.7 | 60.7 | 59.9 | 59.1 | 58.5 | 57.8 | 57.2 | 56.5 | 55.9 | 54.2 | 52.0 | 51.6 | 59.7 | 53.6 |

Sources: Beninese authorities; and staff estimates and projections.

1/ Including new debt.

2/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993. Based on a three-year average of exports on the previous year (e.g., export average over 1999-2001 for net present value (NPV) of debt-to-exports ratio in 2001).

3/ Revenue is defined as central government revenue, excluding grants.

4/ Cotton export revenue lower by 20 percent than in the baseline scenario starting in 2004. The growth impact is sterilized through additional new borrowing to cover the financing gap.

5/ A gradual decrease of public project grants from 2.5 percent of GDP in 2002 to 1 percent in 2010 and 0.5 percent in 2020. The growth impact is sterilized through additional new borrowing to cover the financing gap.

6/ Total public expenditure is higher than in the baseline scenario by 1.5 percent of GDP in 2003, 1.5 percent in 2004, and 0.6 percent in 2005, in line with the second budgetary scenario of the PRSP. They are assumed to remain higher than in the baseline scenario by 2.5 percent of GDP over the period 2006 - 2021. The financing gap is covered by grants (47 percent) and projects and program loans (53 percent) - the same shares as during 1999-2002. A positive impact on GDP growth is assumed for the 2003-08 period. The GDP deflator is assumed to be higher than in the baseline and export-to-GDP ratio is assumed to fall relative to the baseline due to the ensuing real exchange rate appreciation after 2002.

Table 11. Benin: Fiscal Impact of the Enhanced HIPC Initiative, 1999-2005

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|------|-------|------|-------------|-------|-------|
| | | | | Est. | Projections | | |
| (In billions of CFA francs, unless otherwise indicated) | | | | | | | |
| Enhanced HIPC assistance given | | | | | | | |
| Interest due before enhanced HIPC assistance | 11.6 | 12.4 | 13.5 | 14.6 | 14.6 | 13.6 | 13.5 |
| Interest paid before HIPC assistance | 11.6 | 12.4 | 13.5 | 14.6 | 14.6 | 13.6 | 13.5 |
| Enhanced HIPC relief on interest | ... | 1.9 | 5.2 | 7.7 | 5.5 | 6.8 | 5.9 |
| Interest due after enhanced HIPC assistance | ... | 10.5 | 8.2 | 6.9 | 9.0 | 6.8 | 7.6 |
| Amortization due before enhanced HIPC assistance | 29.1 | 31.7 | 28.0 | 29.0 | 31.1 | 27.5 | 27.3 |
| Amortization paid before enhanced HIPC assistance | 29.1 | 31.7 | 28.0 | 29.0 | 31.1 | 27.5 | 27.3 |
| Enhanced HIPC relief on amortization | ... | 3.8 | 10.5 | 10.0 | 16.0 | 14.4 | 13.2 |
| Amortization due after enhanced HIPC assistance | ... | 27.9 | 17.6 | 19.0 | 15.1 | 13.1 | 14.1 |
| Enhanced HIPC relief provided as exceptional financing (to cover debt service due) | ... | 5.7 | 15.7 | 17.8 | 21.6 | 21.2 | 19.1 |
| Total enhanced HIPC assistance | ... | 5.7 | 15.7 | 17.8 | 21.6 | 21.2 | 19.1 |
| Total enhanced HIPC assistance (in U.S. dollars) | ... | 8.0 | 22.5 | 27.1 | 32.9 | 32.6 | 29.4 |
| Net cash flow to the budget from enhanced HIPC assistance | ... | 5.7 | 15.7 | 17.8 | 21.6 | 21.2 | 19.1 |
| Memorandum items: | | | | | | | |
| Investment and program financing | 90.6 | 76.1 | 121.4 | 81.8 | 107.6 | 112.0 | 119.8 |
| Total net external flows (net external financing less debt service due) | 49.9 | 32.0 | 79.9 | 38.1 | 61.9 | 70.9 | 79.0 |
| Functional and other poverty-reducing government expenditures (country specific) | | | | | | | |
| (In percent of GDP) | | | | | | | |
| Baseline pre-enhanced HIPC assistance expenditure projections | 17.6 | 19.7 | 19.4 | 19.8 | 20.6 | 20.2 | 20.2 |
| Post-enhanced HIPC assistance expenditure projections | 17.6 | 20.0 | 20.3 | 20.8 | 21.6 | 21.0 | 20.9 |
| Memorandum items: | | | | | | | |
| Tax revenues | 16.0 | 16.6 | 16.2 | 17.1 | 17.1 | 17.0 | 17.0 |
| Overall fiscal balance before enhanced HIPC assistance 1/ | -1.6 | -3.3 | -3.2 | -2.7 | -3.7 | -3.3 | -3.2 |
| Overall fiscal balance after enhanced HIPC assistance 1/ | -1.6 | -3.5 | -4.2 | -3.7 | -4.6 | -4.2 | -4.0 |

Sources: Beninese authorities; and staff estimates and projections.

1/ On a payment order basis and excluding grants.

Table 12. Benin: Indicators of Fund Credit, 1995-2005

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|-------|-------|-------|-------|-------|------|------|------|-------|------|
| | | | | | | | | Est. | | Proj. | |
| Outstanding Fund credit 1/ | | | | | | | | | | | |
| In millions of SDRs | 56.6 | 68.9 | 70.4 | 66.5 | 67.2 | 64.4 | 61.1 | 57.9 | 50.6 | 42.0 | 36.1 |
| In billions of CFA francs | 42.9 | 51.2 | 56.5 | 53.2 | 56.4 | 59.9 | 56.4 | 52.3 | 44.3 | 36.6 | 31.3 |
| In percent of quota 2/ | 91.4 | 111.4 | 113.7 | 107.4 | 108.5 | 104.1 | 98.8 | 93.6 | 81.7 | 67.9 | 58.2 |
| In percent of GDP | 4.3 | 4.5 | 4.5 | 3.9 | 3.8 | 3.7 | 3.2 | 2.8 | 2.2 | 1.7 | 1.3 |
| In percent of exports of goods and services | 22.0 | 23.6 | 27.9 | 22.6 | 23.8 | 24.6 | 21.4 | 19.5 | 15.3 | 11.2 | 8.9 |
| Debt service to the Fund 2/ | | | | | | | | | | | |
| In millions of SDRs | 1.5 | 1.7 | 3.7 | 4.6 | 7.2 | 10.3 | 12.0 | 11.8 | 12.0 | 9.0 | 6.4 |
| In billions of CFA francs | 1.1 | 1.3 | 3.0 | 3.7 | 5.4 | 9.5 | 11.2 | 10.7 | 10.4 | 7.8 | 5.5 |
| In percent of quota 3/ | 2.4 | 2.8 | 6.0 | 7.4 | 11.7 | 16.6 | 19.6 | 19.1 | 19.2 | 14.6 | 10.3 |
| In percent of GDP | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 | 0.2 |
| In percent of exports of goods and services | 0.6 | 0.6 | 1.5 | 1.6 | 2.3 | 3.9 | 4.2 | 4.0 | 3.6 | 2.4 | 1.6 |
| In percent of debt service due | 2.5 | 3.6 | 7.2 | 10.5 | 13.4 | 21.4 | 26.9 | 25.4 | 23.1 | 17.7 | 12.7 |

Sources: IMF, Treasurer's Department; and staff estimates and projections.

1/ Repurchases are based on projected disbursements throughout the period of the program.

2/ Debt service to the Fund, before enhanced HIPC debt relief.

3/ 1999 quota.

Table 13. Benin: Public Expenditure for Health and Education, 2001-03

| | 2001 | | | | Budget | 2002 | | | | | | | | 2003 Budget |
|---|-----------|-----------|---|-------------------------|--------|--------|-------------------------|--------|-------------------------|-----------|-------------------------|----------|-------------------------|----------------|
| | Budget 1/ | Execution | Rate of Execution 2/ Of which: HIPC assist. | Rate of Execution 2/ | | March | | June | | September | | December | | |
| | | | | | | Actual | Rate of execution 2/ | Actual | Rate of execution 2/ | Actual | Rate of execution 2/ | Est. | Rate of execution 2/ | |
| (In billions of CFA francs, unless otherwise specified) | | | | | | | | | | | | | | |
| Health | 40.8 | 36.2 | 8.7 | 88.8 | 36.4 | 2.6 | 7.2 | 10.3 | 28.2 | 16.1 | 44.2 | 27.4 | 75.2 | 39.5 |
| Current outlays | 23.5 | 19.1 | 8.1 | 81.3 | 19.7 | 1.4 | 6.9 | 5.3 | 26.8 | 8.6 | 43.8 | 14.2 | 72.2 | 23.2 |
| Personnel | 6.8 | 5.4 | 2.1 | 79.1 | 6.7 | 1.3 | 19.9 | 2.8 | 41.8 | 4.3 | 64.6 | 5.9 | 88.3 | 7.4 |
| Nonpersonnel | 16.7 | 13.7 | 6.1 | 82.2 | 13.0 | 0.0 | 0.3 | 2.5 | 19.0 | 4.3 | 33.1 | 8.3 | 63.8 | 15.8 |
| Investment program | 17.3 | 17.1 | 0.5 | 99.0 | 16.7 | 1.3 | 7.5 | 5.0 | 29.9 | 7.5 | 44.7 | 13.2 | 78.8 | 16.2 |
| Domestically financed | 7.3 | 6.3 | 0.5 | 87.2 | 8.7 | 0.0 | 0.1 | 2.1 | 24.1 | 3.2 | 36.5 | 7.5 | 85.7 | 8.8 |
| Financed from abroad | 10.0 | 10.8 | ... | 107.5 | 8.0 | 1.2 | 15.5 | 2.9 | 36.2 | 4.3 | 53.5 | 5.7 | 71.3 | 7.4 |
| Education | 74.2 | 71.1 | 6.7 | 95.8 | 80.5 | 10.4 | 12.9 | 26.4 | 32.8 | 43.5 | 54.1 | 68.8 | 85.4 | 86.9 |
| Current outlays | 56.9 | 53.2 | 4.2 | 93.5 | 55.2 | 9.6 | 17.4 | 23.2 | 42.0 | 36.8 | 66.7 | 55.5 | 100.5 | 61.7 |
| Personnel | 33.5 | 34.4 | 2.0 | 102.8 | 33.8 | 7.8 | 23.1 | 17.5 | 51.7 | 29.2 | 86.4 | 38.4 | 113.5 | 37.1 |
| Nonpersonnel | 23.4 | 18.8 | 2.3 | 80.2 | 21.4 | 1.8 | 8.3 | 5.7 | 26.7 | 7.6 | 35.5 | 17.1 | 79.9 | 24.6 |
| Investment program | 17.3 | 17.9 | 2.4 | 103.4 | 25.3 | 0.8 | 3.3 | 3.2 | 12.6 | 6.7 | 26.6 | 13.3 | 52.5 | 25.3 |
| Domestically financed | 8.1 | 10.4 | 2.4 | 128.0 | 13.4 | 0.0 | 0.0 | 1.1 | 8.4 | 3.2 | 23.6 | 8.5 | 63.6 | 14.6 |
| Financed from abroad | 9.2 | 7.5 | ... | 81.8 | 11.9 | 0.8 | 7.1 | 2.1 | 17.4 | 3.6 | 30.1 | 4.8 | 40.1 | 10.6 |
| (In percent of GDP) | | | | | | | | | | | | | | |
| Total expenditure 3/ | 6.6 | 6.2 | 0.9 | ... | 5.8 | ... | ... | ... | ... | ... | ... | 5.1 | ... | 6.2 |
| Current outlays | 4.6 | 4.2 | 0.7 | ... | 3.7 | ... | ... | ... | ... | ... | ... | 3.7 | ... | 4.2 |
| Personnel | 2.3 | 2.3 | 0.2 | ... | 2.0 | ... | ... | ... | ... | ... | ... | 2.4 | ... | 2.2 |
| Nonpersonnel | 2.3 | 1.9 | 0.5 | ... | 1.7 | ... | ... | ... | ... | ... | ... | 1.4 | ... | 2.0 |
| Investment program | 2.0 | 2.0 | 0.2 | ... | 2.1 | ... | ... | ... | ... | ... | ... | 1.4 | ... | 2.0 |
| Domestically financed | 0.9 | 1.0 | 0.2 | ... | 1.1 | ... | ... | ... | ... | ... | ... | 0.9 | ... | 1.2 |
| Financed from abroad | 1.1 | 1.1 | ... | ... | 1.0 | ... | ... | ... | ... | ... | ... | 0.6 | ... | 0.9 |

Sources: Beninese authorities; and staff estimates and projections.

1/ Includes social measures in supplementary budget.

2/ In percent.

3/ Total expenditure for health and education.

Table 14. Benin: Selected Demographic and Social Indicators

| Indicator | Sub-Saharan Africa 1/ | Latest Single Year | | | 2001 2/ |
|--|--------------------------|--------------------|---------|---------|------------|
| | | 1970-75 | 1980-85 | 1990-95 | |
| (In units indicated) | | | | | |
| GNP per capita (U.S. dollars) | 470 | 220 | 280 | 350 | 380 |
| Population | | | | | |
| Total (thousands) | 612,409 | 3,029 | 4,043 | 5,475 | 6,114 |
| Annual growth rate (in percent) | 2.6 | 2.6 | 3.2 | 2.8 | 2.7 |
| Urban population (percent of total) | 32.3 | 21.9 | 30.8 | 41.8 | 43.0 |
| Life expectancy (years) | 50.8 | 44.5 | 48.0 | 50.2 | 53.4 |
| Total fertility rate (births per woman) | 5.5 | 7.0 | 7.0 | 6.0 | 5.7 |
| Total, ages 15-64 (thousands) | 320,053 | 1,582 | 2,012 | 2,691 | 3,093 |
| Education (Percent of school-age population) | | | | | |
| Primary school enrollment ratio (gross) | 78.0 | 50.0 | 68.0 | 73.3 | 78.0 |
| Male | 85.0 | 70.0 | 90.0 | 93.2 | 98.0 |
| Female | 72.0 | 31.0 | 45.0 | 53.5 | 57.0 |
| Secondary school enrollment ratio | 26.5 | 9.0 | 17.0 | 15.7 | 18.5 |
| (In units indicated) | | | | | |
| Primary school pupil-to-teacher ratio (in percent) | 41.0 | 53.0 | 33.0 | 52.0 | 52.6 |
| Adult illiteracy rate (in percent of total) | | | | | |
| Population ages 15 and above | 37.0 | 85.8 | 78.0 | 68.5 | 68.0 |
| Female | 50.0 | 92.3 | 87.4 | 80.9 | 80.0 |
| Health | | | | | |
| Infant mortality rate (per 1,000 live births) | 91.0 | 151.0 | 117.5 | 94.9 | 87.0 |
| Access to safe water (percentage of population) | 47.0 | 34.0 | ... | 54.0 | 72.0 |
| Urban | 74.0 | 83.0 | ... | ... | 82.0 |
| Rural | 32.0 | 20.0 | ... | ... | 69.0 |
| Food production index (1989-91=100) | 109.4 | 49.5 | 79.9 | 130.4 | 121.1 |
| Child malnutrition (percentage of children under age 5) | 28.4 | ... | ... | 24.0 | 29.0 |

Sources: World Bank: *World Development Indicators* and World Bank Africa Database.

1/ Latest year available.

2/ 1999 data where available; otherwise, 1998 or latest available year.

Table 15. Benin: Financial and Structural Benchmarks and Performance Criteria Under the 2002 Program

(In billions of CFA francs, unless otherwise indicated)

| | End-June 1/ Target | End-June 1/ Actual | End-Sep. 2/ Target | End-Sep. 2/ Actual | End-Dec. 1/ Target | End-Dec. 1/ Estimates |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------------------|
| Quantitative financial benchmarks | | | | | | |
| Net bank credit to the government 2/ Adjusted 2/ 3/ | -63.1 -62.7 | ... -82.2 | -52.1 -48.3 | ... -74.0 | -51.3 -36.8 | ... -48.0 |
| Nonaccumulation of new external payments arrears by the central government (cumulative since end-September 2001) 2/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government 2/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term external debt with a maturity of less than one year (stock) 2/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Wage bill (cumulative since end-December 2001) 1/ | 42.0 | 42.0 | 64.2 | 66.2 | 89.5 | 89.5 |
| Health expenditure (cumulative since end-December 2001) 1/ 4/ | 13.3 | 10.3 | 22.7 | 16.1 | 32.7 | 27.4 |
| Education expenditure (cumulative since end-December 2001) 1/ 4/ | 29.4 | 26.3 | 50.2 | 43.1 | 72.5 | 68.8 |
| Memorandum items (cumulative amount since end-December 2001) | | | | | | |
| Total government revenue 5/ | 140.7 | 151.1 | 217.8 | 232.3 | 310.3 | 319.7 |
| Primary government expenditure 6/ | 121.0 | 112.2 | 208.0 | 190.6 | 297.8 | 297.8 |
| Non-project-related external assistance, excluding debt relief | 5.4 | 0.0 | 12.7 | 0.0 | 18.2 | 3.7 |
| Target for spending on projects financed by HIPC Initiative | 8.0 | 3.0 | 11.9 | 5.7 | 15.9 | 18.3 |

1/ Benchmarks.

2/ Performance criteria, excluding health and education expenditure and the wage bill.

3/ The program target for end-June is adjusted downward by CFAF 5 billion corresponding to the amount of underspending of enhanced HIPC Initiative resources. The target is also adjusted by CFAF 5.4 billion of shortfall of external assistance expected from the European Union. The program target for end-September is adjusted downward by CFAF 6.2 billion corresponding to the amount of underspending of enhanced HIPC Initiative resources. It is also adjusted upward, as agreed in the program, by CFAF 10 billion, out of an expected but not disbursed external assistance of CFAF 12.7 billion. The program target for end-December 2002 is adjusted by CFAF 14.5 billion of shortfall of external assistance.

4/ Total expenditures.

5/ Excluding grants.

6/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

Table 15. Benin: Financial and Structural Benchmarks and Performance
Criteria Under the 2002 Program (concluded)

| Structural Benchmarks | Timetable | Status of Implementation |
|--|--------------------|------------------------------|
| Adopt a recovery plan for the state-controlled bank in conformity with the recommendations of the banking commission, including the timetable for selling the state's shares. | End-July 2002 | Implemented in December 2002 |
| Adopt an action plan for the collection of customs duties in arrears and accrued dividends from the company distributing petroleum products, SONACOP. | End-August 2002 | Implemented in October 2002 |
| Adopt a plan to eliminate the financial deficit of the electricity and water company (SBEE). | End-September 2002 | Implemented in December 2002 |
| Finalize, in consultation with the Fund staff, an evaluation of the operations of the cash-advance accounts (<i>comptes de régisseurs</i>) including an action plan to reduce their number, as well as the decision to implement this plan by January 1, 2003. | End-September 2002 | Implemented in December 2002 |

Table 16. Benin: Use of Enhanced HIPC Funds, 2000-02

(In millions of CFA francs)

| Policy areas | 2000 | 2001 | | 2002 | | | |
|---|-------|--------|--------|--------|-------------|-------------|-----------|
| | | Budget | Actual | Budget | June Actual | Sep. Actual | Dec. Est. |
| Health | 550 | 11,811 | 8,796 | 9,568 | 2,377 | 3,854 | 9,568 |
| Recruit personnel to fill vacant positions | | | | | | | |
| at primary health care facilities | 550 | 2,100 | 2,095 | 1,550 | ... | ... | 1,550 |
| Implement AIDS program | ... | 2,200 | 872 | 770 | 169 | 275 | 924 |
| Implement antimalaria program | ... | 1,988 | 1,321 | 1,350 | 375 | 385 | 1,271 |
| Procure medicine for health centers | ... | 2,246 | 1,704 | 1,470 | 728 | 728 | 1,466 |
| Improve access to safe water | ... | 854 | 547 | 1,340 | 162 | 401 | 1,288 |
| Improve health system | ... | 1,586 | 1,420 | 1,327 | 867 | 973 | 1,325 |
| Increase child immunization | ... | 837 | 837 | 879 | ... | 879 | 879 |
| Improve health assistance | ... | ... | ... | 882 | 77 | 213 | 865 |
| Education | 2,950 | 7,451 | 6,667 | 8,875 | 488 | 990 | 7,625 |
| Recruit teachers to fill vacant positions in rural areas | 950 | 1,956 | 1,956 | 2,256 | ... | ... | 2,124 |
| Eliminate school fees in rural areas and compensate schools for the loss of revenue | 2,000 | 2,200 | 2,123 | 2,704 | ... | ... | 2,660 |
| Refurbish classrooms | ... | 586 | 293 | 1,334 | ... | 294 | 398 |
| Refurbish classroom equipment | ... | 2,559 | 2,145 | 734 | 25 | 129 | 596 |
| Conduct a study on improving the education system | ... | 150 | 150 | 847 | 213 | 213 | 847 |
| Improve school cafeterias | ... | ... | ... | 1,000 | 250 | 356 | 1,000 |
| Rural development (maintenance of feeder roads) | | 1,098 | 750 | 1,371 | 151 | 820 | 1,101 |
| Total | 3,500 | 20,360 | 16,213 | 19,814 | 3,016 | 5,664 | 18,293 |
| Total enhanced HIPC resources received | 5,600 | | 15,680 | | 7,833 | 11,892 | 17,794 |

Table 17. Benin: Summary of Key Structural Reforms, 2003

| Policy Areas | Strategies and Measures | Timing of Measures |
|---|---|--------------------|
| Tax administration | Adopt, for tax and customs administrations, action plans, including the recommendations of the Fund's September 2002 technical assistance mission on the reform of the tax and customs administrations. | End-March 2003 |
| Expenditure control 1/ | Reduce the number of cash advance accounts (<i>comptes des régisseurs</i>). | 2003 |
| | Adopt an action plan indicating how to channel all government expenditure (including external debt service and foreign investment) through the new computerized budget management system (SIGFIP). | End-March 2003 |
| | Complete the audit of 2001 HIPC-financed expenditure. | End-June 2003 |
| Civil service reform 1/ | Implement a recruitment policy based on fixed-term contracts and apply the merit-based compensation system to those contracts. | End-March 2003 |
| | Use the single database (FUR) for the preparation of civil servants' monthly payrolls. | End-March 2003 |
| | Complete an actuarial study on the strategy to cover the financial deficit of the civil service pension fund (FNRB). | End-Sep. 2003 |
| Decentralization 1/ | Complete studies on the costs of transferring jurisdiction to local governments; provide training to local authorities on expenditure management. | March 2003 |
| Governance | Implement the anticorruption strategy. | 2003 |
| | Collect customs duties in arrears and accrued dividends from the company distributing petroleum products (SONACOP). | 2003 |
| Public enterprises 1/ | Prepare a report on claims and debts between the public enterprises and on government contingent liabilities | End-March 2003 |
| | Electricity sector: | |
| | • Adopt an action plan to settle overdue claims and prevent arrears to the electricity and water company (SBEE). | End-March 2003 |
| | • Launch a call for bids for the concession of SBEE to the private sector. | End-June 2003 |
| | Post and telecommunications: | |
| | • Launch a call for bids for the privatization of the telecommunications company (OPT). | End-June 2003 |
| | Cotton sector: | |
| | • Launch a call for bids for the privatization of the state-owned ginning company (SONAPRA). | End-June 2003 |
| | • Undertake a joint study with the World Bank on the impact of cotton sector reforms on poverty. | 2003 |
| | Port of Cotonou: | |
| • Conduct a study on the implementation of the selected privatization option. | First semester 2003 | |
| • Select private sector operators. | Second semester 2003 | |
| Financial sector | Implement the plan for the rehabilitation of the Continental Bank, including selling the government's shares. | End-September 2003 |

1/ Areas where the World Bank is assisting the authorities.

TRANSLATED FROM FRENCH

Cotonou, January 29, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. On behalf of the government of Benin, I am pleased to send you the attached memorandum on economic and financial policies for 2003. This memorandum describes the progress made during the first half of the second year of the program that the Fund supports under an arrangement under the Poverty Reduction and Growth Facility (PRGF). The memorandum also indicates the policies and measures planned for 2003. The attached technical memorandum of understanding also specifies the definitions of benchmarks and criteria presented in Tables 1 and 2 of Appendix I, Annex I, and the reporting requirements.
2. As indicated in paragraph 4 of the memorandum, all the quantitative performance criteria for end-September 2002 were observed.
3. The government is convinced that the policies and measures set forth in the memorandum on economic and financial policies are adequate to achieve the objectives of its program. The government will provide the International Monetary Fund with information that it may request for purposes of monitoring progress in implementing its economic and financial policies.
4. The government proposes that the sixth disbursement under the arrangement, in an amount equivalent to SDR 2.69 million, be conditioned on the observance of end-March 2003 performance criteria (Table 2) and completion of the fifth review under the arrangement, which is expected by mid-July 2003. The fifth review will assess economic and financial developments from September 2002 to June 2003, the outlook for the remainder of 2003, and the implementation of the poverty reduction strategy. The seventh disbursement, in amounts equivalent to SDR 1.35 million, would be conditioned on completion of the sixth review and on observance of end-September 2003 performance criteria.

5. As was the case in the past, the government consents to the Fund's publication of this letter, the memorandum of economic and financial policies for 2003, the technical memorandum of understanding, and the staff report for the fourth review under the PRGF.

Sincerely yours,

/s/

GREGOIRE LAOUROU
Minister of Finance and Economy

Attachments: Memorandum on Economic and Financial Policies for 2003
Technical Memorandum of Understanding

BENIN

Memorandum on Economic and Financial Policies for 2003

January 29, 2003

I. INTRODUCTION

1. Discussions in the context of the arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou, December 4–18, 2002 between the government of Benin and a Fund mission, covering the fourth review of the medium-term program—in particular, the progress made in program implementation in 2002 and the outlook and measures planned for 2003 and the medium term within the framework of the poverty reduction strategy adopted by the government—and the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) completion point. The government of Benin reaffirms its commitment to implement all the policies described in this document, which supplements the June 2002 memorandum on economic and financial policies.

II. PROGRAM IMPLEMENTATION IN 2002

2. The program for 2002 had been prepared in the context of a medium-term strategy for 2002–04 aimed at achieving sustainable economic growth, reducing poverty, and maintaining financial viability over the medium term by strengthening financial policies and liberalizing the economy.

3. Benin's economic performance in 2002 remained satisfactory despite the sharp deterioration in the terms of trade. The real GDP growth rate is estimated at 5.8 percent, compared with a target of 5.3 percent, mainly on account of a particularly abundant cotton harvest; inflation was contained at 2.3 percent despite the increase in public utility rates; the current account deficit (including current transfers) reached 8.3 percent of GDP in 2002, as projected, owing to the slump in cotton prices on international markets; and the real exchange rate appreciated by some 4.5 percent over the first ten months of 2002, as a result of the appreciation of the euro—to which the CFA franc is pegged—vis-à-vis the dollar. In addition, the impact of the crisis in Côte d'Ivoire remained negligible.

4. All the quantitative performance criteria for end-September 2002 were met. In particular, net bank credit to the government amounted to CFAF -74 billion, compared with an adjusted target of CFAF -48.3 billion. However, the quantitative benchmark with respect to the wage bill was exceeded slightly, and education and health expenditure remained below the benchmarks adopted.

5. The four structural benchmarks were met. The benchmarks consisted of (i) the adoption of a recovery plan for the state-controlled bank; (ii) the adoption of an action plan for collection of the customs duties in arrears and accrued dividends from the company distributing petroleum products; (iii) the adoption of a plan for restoring the financial viability of the electricity company (SBEE); and (iv) the completion of an evaluation of the operations of the cash advance accounts (*comptes des régisseurs*), including a plan to reduce their number and the decision to implement this plan on January 1, 2003.

A. Government Finance and Fiscal Reforms

6. Program performance in the area of government finance was generally satisfactory. During the first nine months of 2002, government revenue exceeded program targets by 7 percent, especially as a result of the implementation of action plans to improve tax collection by the customs and tax directorates. Expenditure remained within the program limits; however, its composition reflected delays in the execution of education and health expenditure (87 percent and 71 percent of the targets representing quantitative benchmarks, respectively) and investment (76 percent of the target), as well as overruns in some current expenditure, in particular expenditure on public utilities. There was also a slight overrun in the wage bill for the third quarter (3.1 percent above the September 2002 target, which represented a quantitative benchmark), but the target was observed at end-December 2002. Expenditure financed by enhanced HIPC Initiative resources represented only 48 percent of the end-September target but rose sharply during the fourth quarter as a result of education spending related to the start of the new school year in October. Net bank credit to the government remained below the end-September target despite delays in the disbursement of the expected budgetary financial assistance. For 2002 as a whole, the overall government deficit is estimated at 3.7 percent of GDP.

7. There was continued improvement in the functioning of the new computerized expenditure management system (SIGFIP). To maintain consistency between budget and treasury operations and limit the proportion of expenditure not following normal public expenditure execution procedures, the authorities completed their evaluation of the cash advance accounts (*comptes des régisseurs*), a structural benchmark of the program. An action plan to reduce the number of such accounts was adopted, and 300 accounts (out of a total of 867) were thus closed on January 1, 2003. The balances of these accounts at end-2002 were transferred in full to the treasury. The government also completed the audit of enhanced HIPC-Initiative-financed expenditure for 2000.

8. The government completed the work of clarifying and checking the account balances of the treasury at end-1999, end-2000, and end-2001. This work made it possible to produce a definitive starting balance for 2002 operations. The definitive treasury balance has been produced on a monthly basis since August 2002, with a lag of no more than a month.

B. Money and Credit Developments

9. After three years of strong expansion, growth of the money supply slowed considerably in 2002. Net domestic assets fell slightly during the first nine months of 2002; the government's net position continued to improve, while credit to the economy increased by some 19.3 percent in the 12 months to September 2002.

10. The financial health of the banking system improved overall in 2002. The new prudential arrangements came into effect on January 1, 2002, in particular the raising of the capital adequacy ratio to a minimum of 8 percent, a criterion met by four of the six banks as at September 30, 2002. There was a relative improvement in the position of the two banks placed under temporary receivership, including the Continental Bank, for which the authorities established a financial recovery plan calling for increased efforts to collect delinquent claims and adopted a divestment strategy consisting of the sale of its shares by September 30, 2003. The only existing nonbank financial institution under surveillance has not shown signs of significant improvement; however, it observes most of the prudential ratios and is pursuing its efforts to improve its information system, as requested by the West African Economic and Monetary Union (WAEMU) Regional Banking Commission.

11. In the microfinance sector, the recovery of the Federation of Rural Savings and Loans Cooperatives, FECECAM, which takes more than 90 percent of the total deposits made with institutions in the sector, deepened in 2002. The activity of the network strongly improved, and there was a substantial reduction in delinquent claims. At the end of September 2002, loans granted by the sector represented nearly 15 percent of bank credit to the economy. At the same time, the Microfinance Unit in the Ministry of Finance stepped up its supervision of the sector.

C. Structural Reforms

12. In the cotton sector, reforms were pursued. Since the 2000/01 crop year, responsibility for the marketing and collection of cottonseed has been transferred from the state cotton enterprise (SONAPRA) to the autonomous agency (CSPR) that coordinates ginners, input distributors, and producers. Owing to payments arrears of a private ginning mill to the CSPR during the 2000/01 crop year and to the late start of the 2001/02 harvest, delays in payments to cotton producers were eliminated only at end-2002.

13. For the 2002/03 crop year, cotton sector participants agreed on a producer price of CFAF 190 per kilogram, including CFAF 10 for the producer's share in expenditure for critical functions (compared with CFAF 200 per kilogram for the previous crop year), in light of the authorities' intention not to renew the exceptional subsidies granted during the previous year. The harvest officially started in December, after the agreed prices had been published.

14. Several important actions were undertaken in the government divestiture program. The strategy for the privatization of SONAPRA was adopted in May 2002. By decrees adopted on January 31, 2002, the government established the legal framework to split the postal and telecommunications company (OPT) into two branches: post office and telecommunications. The government also drew up a strategy in May 2002 for opening the electricity branch of the water and electricity distribution company (SBEE) to the private sector under a management contract. In November 2002, based on the findings of the study to identify options to involve the private sector in the management of the Port of Cotonou, the government adopted an approach to achieve this objective.

15. The government liberalized cement imports and prices as of August 1, 2002, after the establishment of a regulatory body made up of representatives of the government, private sector, and consumers. In this context, all cement imports are subject to normal tax treatment and to import duty. The mechanism introduced in 2000 for the quarterly adjustment of petroleum product prices to take account of changes in international prices functioned well in 2002. With regard to the electricity sector, the government raised average electricity rates by CFAF 14 per kilowatt-hour in June 2002, in order to pass on the increase in the prices of its supplier, the Electricity Community of Benin (CEB), from CFAF 38 to CFAF 50 per kilowatt-hour. In addition, a plan to restore the enterprise's financial viability was adopted, providing in particular for the raising and restructuring of rates and other services and an effort to reduce the rate of loss on the network and to collect on invoices.

16. Regarding the civil service reform, the government was unable to introduce the new compensation system, as the National Assembly did not examine the amendment of the pertinent law and the unions requested further discussions with the government and the Assembly in this regard. Meanwhile, the government has decided that the recruitment policy will be based on fixed-term contracts, starting in 2003.

17. In the context of its ongoing program to promote good governance, the government, after consultations with the various national players, adopted a national strategic anticorruption plan in July 2002. The plan focuses primarily on administrative reforms, increased anticorruption efforts, continued fiscal consolidation, and more ethical conduct by civil servants.

18. The government continues to participate actively in the initiatives aimed at strengthening regional integration within the WAEMU and the Economic Community of West African States (ECOWAS). At end-2002, Benin observed all the core criteria for macroeconomic convergence. On the tax side, Benin harmonized its customs nomenclature in 2002 and completed the harmonization of excise taxes on January 1, 2003.

III. MEDIUM-TERM FRAMEWORK

19. The government has approved and submitted to the development partners the poverty reduction strategy paper (PRSP) covering the period 2003–05. This paper is based on a consultative, participatory approach involving the country's various social groups and the development partners. It provides a diagnosis of poverty in Benin and presents the national priorities and the main focuses of the poverty reduction strategy for 2003–05. The paper also presents the mechanism for monitoring and assessing implementation of the strategy and spells out the measures and actions envisaged for 2003–05, with a timetable for their implementation. This PRSP, which will be updated annually and renewed every three years, is considered by the government the unique reference framework for focusing national policies and the contributions of all the development partners on the objective of growth and poverty reduction.

20. The poverty reduction strategy adopted in the PRSP is based on an acceleration of economic growth that is more beneficial to the most vulnerable population groups. In this way, the government plans to strengthen the development of the country's human capital and basic infrastructures, create an institutional climate conducive to private sector development, and take the necessary steps for the promotion of the various sectors that constitute the engines of growth. Among these sectors, the government considers agro-industry, tourism and the hotel industry, new information and communications technologies, and transit activities as keys to growth acceleration. The strategy adopted in the PRSP is also aimed at involving the underprivileged social groups in the production process by promoting their access to microcredit, training, and land.

21. Implementation of the poverty reduction strategy should be based, in line with experience gained thus far, on a stable medium-term macroeconomic framework. To this end, the PRSP includes two fiscal scenarios: the first one is based on prudent financing assumptions, and the second one is more ambitious in terms of growth and poverty reduction, providing for investment higher than in the first scenario (the difference is equivalent to 1.9 percent of GDP on average), for which the government plans to seek financial assistance from the development partners. The PRSP includes the macroeconomic framework and a medium-term expenditure framework (MTEF)—prepared with the help of the World Bank—consistent with each of the fiscal scenarios.

22. The baseline macroeconomic framework, which is consistent with the first fiscal scenario, was prepared on the basis of the scenario described in the memorandum on economic and financial policies of June 27, 2002, taking into account recent developments in the national and international economic environment. Accordingly, the growth target for 2003 has been revised downward from 6 percent to 5.6 percent to take into account the expected fall in seed cotton production. The growth rate target projected for 2004 has been maintained at 6.5 percent, and the 2005 target has also been projected at 6.5 percent. The inflation target for the period 2003–05, at 2½ percent a year, is in conformity with the WAEMU convergence criterion. To reach these targets, the government plans to pursue monetary and fiscal policies aimed at maintaining financial stability. In this context, the

overall government deficit (on a payment order basis, excluding grants) will be gradually reduced from 4.6 percent in 2003 to 4.2 percent in 2004 and 3.9 percent in 2005).

23. The macroeconomic framework consistent with the more ambitious fiscal scenario is geared to achieve higher growth rates. The government believes that, as a result of higher investment levels, real GDP could grow by 5.8 percent in 2003, 6.8 percent in 2004, and 7 percent in 2005. However, the annual inflation rate could be $\frac{1}{2}$ percent of 1 percent higher than in the baseline macroeconomic framework. The current account deficit is also expected to be wider than in the basic macroeconomic framework by 1.2 percent in 2003, 2.1 percent in 2004, and 1.5 percent in 2005.

IV. POLICIES AND MEASURES PLANNED FOR 2003

24. Implementation of the poverty reduction strategy described in the PRSP will begin in 2003. The government believes that the policies and measures planned for 2003 represent an important step toward achieving the medium-term PRSP objectives within the framework aiming at prudent fiscal management, the implementation of monetary policy geared toward price stability, and the acceleration of structural reforms.

A. Fiscal Policy and Budget Reform

25. The 2003 budget adopted by the government is consistent with the baseline fiscal scenario described in the PRSP. This scenario reflects the government's commitment to the priority sectors and poverty reduction. In the 2003 budget, total revenue is maintained at a level equivalent to 17.1 percent of 2002 GDP, while efforts to strengthen the tax and customs administrations in order to expand the tax base are continuing. The 2003 budget provides for larger increases in poverty reduction spending than in other spending. Accordingly, budgetary expenditure on education and health sectors have been raised by about 30 percent over their 2002 levels, compared with 13.3 percent for total expenditure. The wage bill has been established at the same level as in 2002, representing 4.8 percent of GDP, and includes an automatic 5 percent increase to bring the wages of all government employees to the wage scale grades reached in 2002. The government plans to take the necessary steps in 2003 to prevent wage bill increases that exceed the inflation rate target during the period 2004–05. Current expenditure remains at about 12.4 percent of GDP, even though there will be no transfers to the cotton sector in 2003 because of additional expenditure on public utilities in mid-2002. Meanwhile, the government has taken the steps necessary to keep electricity and telephone expenditure within the budget. Current expenditure also includes CFAF 6.5 billion to cover the cost of the legislative elections scheduled for March 2003. Total investment increased considerably, in accordance with the PRSP objectives. The budget deficit, on payment order basis and including grants and HIPC Initiative resources, is expected to represent 1.1 percent of GDP. This deficit will be fully covered by domestic financing.

26. To facilitate control of the wage bill and implementation of the planned civil service reform, the government will start using the single reference database (FUR) for the preparation of monthly payroll by March 2003.

27. In conformity with the second fiscal scenario in the PRSP, the government plans to prepare a supplementary budget in 2003 that can facilitate the execution of expenditure in favor of the priority sectors; it will also commit itself to higher investment in the basic economic infrastructures and in the social sectors, when the concessional financing consistent with the objective of debt sustainability has been obtained and it is clear that the capacity is available for executing such expenditure. The government will consult with Fund and World Bank staff before starting preparation of the supplementary budget.

28. The government plans to implement a set of measures to improve fiscal performance, in accordance with the revenue targets in the budget. Accordingly, it intends to pursue the implementation of action plans aimed at improving the performance of the tax and customs administrations. Furthermore, in consultation with Fund staff, the government will include the recommendations of the September 2002 Fund technical assistance mission to Cotonou on the reform of the tax and customs administrations. The action plans, which will be adopted by end-March 2003, will include the following measures: (i) the reduction of customs fraud by strengthening detection, in particular through the use of compulsory pre-shipment inspection and customs declarations, and strict application of the legally established sanctions; (ii) the intensification of controls with respect to customs valuations and the application of transactional values, pursuant to the WAEMU regulations; (iii) intensified monitoring exemptions; (iv) the extension of the scope of import inspections to include consumer food products; (v) intensified control and monitoring of major importers who do not meet their postcustoms clearance obligations; and (vi) computerization of customs operations, with account taken of the goal of simplifying procedures and formalities. As for the tax administration, the government intends to include measures aimed at the following (i) developing staff capacities and preparing criteria for assessing their performance; (ii) strengthening taxpayer management, with special emphasis on the regular updating of the national database of taxpayers; (iii) improving the tracking (detection and dispatch of reminder notices) of delinquent taxpayers and collection actions; (iv) strengthening tax audits, in particular by improving their coverage, giving priority to surprise audits, and developing collaboration with the customs administration; and (v) completing the computer linkage between the tax and customs directorates. The government has requested a technical assistance (TA) mission from the Fund to monitor the implementation of these measures. In addition, the government will make every effort to collect nontax revenue, in particular dividends and repayments of on-lent loans outstanding from state enterprises. The government will also pursue implementation of the action plan for the collection of taxes and dividends owed by the petroleum distribution company (SONACOP) and will use all the prerogatives of the state for their collection in the event of default.

29. As regards expenditure management, the government intends to reinforce the measures taken in recent years with World Bank support in the form of the Public Expenditure Reform Adjustment Credit (PERAC) Project, to improve the quality and level of execution of priority current expenditure and of investment. In this context, the government plans to enforce strict observance of the budgetary procedures and to limit the proportion of expenditure that does not follow the regular commitment and payment order procedures. In this regard, and with a view to eliminating all cash advance accounts, the government will significantly reduce the number of these accounts in fiscal-year (FY) 2003. Moreover, the government plans to deepen the fiscal reforms by channeling all expenditure through SIGFIP, including, in particular, external debt service and externally financed investment. To this end, an action plan with a timetable will be adopted by end-March. The government is also looking at gradually generalizing the program budget approach. The government will also complete the audit of 2001 HIPC Initiative-financed expenditure by end-June 2003. The government has asked the Fund and the World Bank for a technical assistance mission to review all the ongoing fiscal reforms, with a view to improving the execution of priority expenditure.

30. With respect to the claims and debts between the public enterprises and the government and the government's contingent liabilities, the government has decided to systematize the actions undertaken, and in particular (i) to check and confirm existing claims; this task has already commenced for the SBEE and will eventually cover all public enterprises; (ii) to draw up a plan for the settlement of overdue claims; and (iii) to draw up a plan for measures to prevent the accumulation of further arrears. These measures relate, in particular, to government consumption and the related budget allocations, the financial viability of public enterprises, and the verification of invoices for provided services. The government will prepare a report on these various points by end-March 2003.

31. The government intends to launch the decentralization process following the December 2002 municipal elections. To this end, the authorities will complete the studies on the modalities and the cost of transferring jurisdiction to the local governments and will make the decisions concerning the fiscal and accounting framework of the local governments by mid-March 2003. The 2003 budget includes an overall allocation to the local governments of CFAF 3.6 billion (an increase of 20 percent, compared with the previous budget for the subprefectures). In addition, the budget includes CFAF 58 billion in expenditure for execution on behalf of the local governments but that will continue for the time being to be administered centrally; the government intends to provide the training necessary for the transfer of the management of this expenditure to the local level.

B. Outlook for Money, Credit, and the Financial System

32. Monetary policy, which is conducted at the regional level by the Central Bank of West African States (BCEAO), is aimed at preserving the fixed exchange rate regime and maintaining an adequate level of foreign exchange reserves. In this regard, Benin's money supply is expected to grow at the same rate as nominal GDP in 2003. Net credit to the government should remain stable, while credit to the private sector could increase by some

13.5 percent. It is anticipated that the net foreign assets of the banking system will rise in 2003. The government will continue to support the efforts of the Regional Banking Commission to improve the health of the Beninese financial system, so that it can play an active role in the development process. With this in mind, the government will continue to encourage all financial institutions to observe the current banking regulations and prudential ratios, especially those related to capital adequacy. In addition, the government will implement the recovery plan for The Continental Bank and will relinquish its shareholdings by end-September 2003. The ongoing efforts to rehabilitate and supervise microfinance institutions and to collect the claims of the liquidated banks will continue.

C. Other Structural Reforms

33. The government will pursue the reform of the cotton sector, with a view to increasing the efficiency of the sector and the income of producers and helping to reduce poverty. As regards the implementation of the strategy for privatizing SONAPRA, for which the decision was taken to sell ginning mills by lots, the government, in cooperation with the World Bank, is using a call for bids to recruit an investment bank that will help the authorities carry out this privatization as soon as possible and in all transparency. Within the framework of the new timetable established, it is anticipated that the call for bids will be issued by the end of the first half of 2003. To prevent the recurrence of payment problems, the CSPR will enforce compliance with the system of compulsory advance deposits equivalent to 40 percent of the value of the cottonseed allocation, and with the exclusion of debtor companies from cottonseed allocations. Moreover, the government will continue to promote private sector implementation of the producer price-setting mechanism, which reflects trends in world prices. To ensure that the exceptional subsidy granted during the 2001/02 crop year is properly used, an exhaustive independent audit of the financial terms of cotton fiber sales will be conducted as soon as the shipments of the 2001/02 harvest have been completed. Finally, the authorities, in collaboration with sector participants, will undertake a joint study with the World Bank in 2003 on the impact of past and future cotton sector reforms on poverty.

34. The government intends to privatize public enterprises with transparency and in accordance with a realistic timetable, and to ascertain the fiscal impact of these operations. As regards the timetable, the call for bids for the telecommunications company will be issued in the first half of 2003. In the electricity sector, the government has established, with the help of the World Bank in the context of preparation of a sectoral project, the sector reform framework and the timetable for the privatization of the SBEE. In particular, the call for bids for a management contract in the electricity sector is to be issued by end-June 2003. For the Autonomous Port of Cotonou (PAC), the government will call for bids to conduct a feasibility study and define the modalities for implementing the selected option. This study will be completed by end-June 2003, and the selection of private operators will begin in the second half of 2003.

35. The government intends to implement the civil service reform as soon as possible. To this end, it will again call on the National Assembly to vote on the amendment of the law on the new compensation system. Measures to supplement those mentioned in paragraph 16 above will be considered, with the help of the World Bank, with a view to improving civil service performance in 2003.

36. The National Pension Fund of Benin (FNRB) for civil servants runs a structural financial deficit, currently covered by the government budget, for which a budget subsidy of CFAF 9.6 billion was allocated in 2002. The government established a database of retired personnel in September 2002 and plans to carry out an actuarial study of the FNRB to help it define a strategy for covering the financial deficit of the fund and ensuring its stability over the medium term. The terms of reference of the study—which incorporate the comments of World Bank staff—were finalized in December 2002; the study will be completed by end-September 2003, and on this basis the strategy will be prepared in the last quarter of 2003.

37. In the area of good governance, the government plans to ensure the effective implementation of the national strategic anticorruption plan, in particular by strengthening government regulatory bodies, such as the Chamber of Accounts, the General Inspectorate of Finance, the inspection and verification directorates in the ministries, and the Unit for Ethical Values in Public Life.

V. DEBT SUSTAINABILITY AND HIPC INITIATIVE COMPLETION POINT

38. Benin reached the HIPC Initiative decision point in July 2000. The government has since prepared and adopted a PRSP and made efforts to meet the other prerequisites for reaching the completion point by the end of the first quarter of 2003. Meanwhile, Benin has received interim assistance under this Initiative.

39. A debt sustainability analysis for the period 2001–21 was prepared in collaboration with Fund and World Bank staff. This analysis, which was based on the external debt position at end-2001, produced a number of findings. First, the ratio of the net present value of the external debt to exports of goods and nonfactor services at end-2001 exceeded 150 percent, contrary to decision point forecasts. The overrun observed is attributable mainly to the fact that drawings on external loans during the period 1999–01 were larger than anticipated in the decision point data. However, based on conservative assumptions concerning developments in the macroeconomic framework during the period 2002–21, the ratio of the net present value of the external debt to exports of goods and nonfactor services is expected to remain above 150 percent only until end-2004 and decline gradually in subsequent years.

40. The government is, therefore, determined to conduct a prudent debt policy that gives priority to obtaining grants, so that the external debt can remain on a sustainable track. In this regard, the government has established a coordination structure that will be responsible for

drafting, implementing, and monitoring policy, and annually updating the debt sustainability analysis.

VI. MONITORING OF THE PROGRAM AND PERFORMANCE CRITERIA AND BENCHMARKS

41. To ensure successful implementation of the program, the government, as a prior action, has complied with all of the structural benchmarks initially established for the period July–September 2002, as shown in Table 1.

42. The program will be monitored on the basis of the technical memorandum of understanding accompanying this memorandum, and of the quantitative performance criteria, indicative targets, and structural benchmarks established for the period January 1–December 31, 2003, along with a fifth review. The performance criteria are set for end-March and end-September 2003. Their observance is a condition for the disbursement under the program. The performance criteria include (i) a ceiling on net domestic bank credit to the government; (ii) ceiling on the deficit of the central government; (iii) the nonaccumulation of new external payments arrears by the central government (on a continuous basis); (iv) a ceiling on new nonconcessional foreign or guaranteed debt with a maturity of one year or more; and (v) a ceiling on new short-term foreign borrowing, except for the regular financing of imports. The quarterly ceilings on net domestic bank credit to the government will be adjusted downward (upward), by the amount by which disbursements on non-project related external assistance, excluding any external debt relief, exceeds (falls short of) program estimates, as indicated in Table 2 attached. The quarterly ceiling on the deficit (surplus) of the central government will be reduced (increased) by the amount by which disbursements on non-project grants or debt service relief exceed the amount programmed. The quarterly ceiling of the deficit (surplus) will also be reduced (increased) by the amount of underspending on projects financed by HIPC Initiative resources. The ceiling on the deficit (surplus) will be increased (reduced) by the amount by which disbursements on budgetary assistance or debt-service relief fall short of the amount programmed. The five criteria mentioned above are indicative targets for end-June 2003 and end-December 2003. The indicative targets also include the wage bill, health and education expenditures, total government revenue, and primary government expenditure. The reduction of domestic payments arrears has not been adopted as a quantitative benchmark or performance criterion because all domestic arrears have been paid, except for those still subject to dispute proceedings.

43. The following measures will serve as structural benchmarks: (i) the adoption and implementation, by March 31, 2003, of action plans for the General Directorate of Taxes and the General Directorate of Customs incorporating the recommendations of the Fund's September 2002 technical assistance mission; (ii) the use by the Payroll Unit of the single reference database for the payment of wages, effective March 31, 2003; (iii) the adoption of an action plan for SIGFIP, providing for the integration of external debt service and externally financed projects into the system by March 31, 2003; and (iv) the opening of the bidding for the government's shares in the Continental Bank by September 30, 2003.

Table 1. Benin: Prior Actions and Structural Benchmarks for the 2003 Program

| Measures | Timetable | Status of Implementation |
|---|----------------|--------------------------|
| Prior actions | | |
| • Adopt a recovery plan for the state-controlled bank in conformity with the recommendations of the Regional Banking Commission, including the timetable for selling the state's shares. | End-July 2002 | Implemented in Dec. 2002 |
| • Adopt an action plan for the collection of customs duties in arrears and accrued dividends from the company distributing petroleum products, SONACOP. | End-Aug. 2002 | Implemented in Oct. 2002 |
| • Adopt a plan to eliminate the financial deficit of the electricity and water company (SBEE). | End-Sep. 2002 | Implemented in Dec. 2002 |
| • Finalize, in consultation with Fund staff, an evaluation of the operations of the cash advance accounts (<i>comptes de régisseurs</i>), including an action plan to reduce their number, as well as the decision to implement this plan by January 1, 2003. | End-Sep. 2002 | Implemented in Dec. 2002 |
| Structural benchmarks | | |
| • Adopt and implement action plans for the General Directorate of Taxes and the General Directorate of Customs, incorporating the recommendations of the Fund's September 2002 technical assistance missions. | End-March 2003 | |
| • Ensure use by the Payroll Unit of the single reference database for the payment of wages. | End-March 2003 | |
| • Adopt an action plan for the computerized budget management system (SIGFIP), providing for the integration of external debt service and externally financed projects into the system. | End-March 2003 | |
| • Offer for sale the government's shares in the Continental Bank. | End-Sep. 2003 | |

Table 2. Benin: Financial and Structural Benchmarks and Performance Criteria Under the 2003 Program

(In billions of CFA francs, unless otherwise indicated)

| | 2003 | | | |
|--|-----------|----------|---------------|--------------|
| | End-March | End-June | End-September | End-December |
| Performance criteria 1/ | | | | |
| Net bank credit to the government 2/ | -49.7 | -48.8 | -43.4 | 46.8 |
| Deficit of central government, including grants and debt relief (cumulative, since end-December 2002) 3/ 4/ | -7.6 | -13.0 | -22.1 | -25.2 |
| Nonaccumulation of new external payments arrears by the central government (cumulative, since end-December 2002) 5/ | 0.0 | 0.0 | 0.0 | 0.0 |
| New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government | 0.0 | 0.0 | 0.0 | 0.0 |
| Short-term external debt with a maturity of less than one year (stock) | 0.0 | 0.0 | 0.0 | 0.0 |
| Indicative targets (cumulative since end-December 2002) | | | | |
| Wage bill | 22.9 | 49.4 | 76.9 | 96.7 |
| Health expenditure | 8.9 | 17.8 | 26.7 | 35.6 |
| Education expenditure | 19.6 | 39.1 | 58.7 | 78.2 |
| Total government revenue 6/ | 80.2 | 162.8 | 253.8 | 346.0 |
| Primary government expenditure 7/ | 72.8 | 155.2 | 242.8 | 326.5 |
| Memorandum items (cumulative since end-December 2002): | | | | |
| Program grants and loans | 6.6 | 11.3 | 11.3 | 11.3 |
| Target for spending on projects financed by enhanced HIPC Initiative | 2.7 | 7.7 | 11.8 | 19.4 |

1/ Performance criteria for end-March and end-September 2003; and indicative targets for end-June and end-December 2003.

2/ Program targets will be adjusted downward (upward) by the amount by which disbursements on non-project-related external assistance, excluding debt relief, exceed (fall short of) the amount programmed. Program targets will also be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed for restructuring expenditure and by the amounts of newly issued treasury bonds held outside the banking sector. They will also be adjusted downward by the amount of underspending on projects financed by the HIPC Initiative.

3/ The deficit of the central government is defined as the opposite of the sum of the net external financing (excluding grants and enhanced HIPC Initiative assistance) and domestic financing of the central government.

4/ The ceiling on the deficit (surplus) of the central government will be reduced (increased) by the amount by which disbursements on non-project grants or debt service relief exceed the amount programmed. The ceiling on the deficit (surplus) will be reduced (increased) by the amount of underspending on projects financed by HIPC Initiative resources. The ceiling on the deficit (surplus) will also be increased (reduced) by the amount by which disbursements on budgetary assistance or debt-service relief fall short of the amount programmed.

5/ Excluding arrears on debt obtained from non-Paris Club creditors for which the authorities are negotiating for conditions comparable to those agreed by Paris Club members in October 1996.

6/ Excluding grants.

7/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

INTERNATIONAL MONETARY FUND

BENIN

Technical Memorandum of Understanding

(January 29, 2003)

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes.

I. DEFINITIONS

2. Unless otherwise indicated, the government is defined as the central government of the Republic of Benin and does not include local authorities, the central bank, or any other public entity with autonomous legal personality that is not included in the table of government financial operations (TOFE).

3. The definitions of “debt” and “concessional borrowing” for the purposes of this memorandum of understanding are as follows:

- As set out in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), 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, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt 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 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 payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the 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 arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under this 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 (e.g., payment on delivery) will not give rise to debt.

- **A loan is considered concessional** if, on the date the contract is signed, 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 (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Bank Credit to the Government

Definition

4. Net bank credit to the government is defined as the balance between the liabilities and claims of the government vis-à-vis the central bank and commercial banks. The scope of net credit to the government is that used by the Central Bank of West African States (BCEAO) and is consistent with established Fund practice in this area. It implies a broader definition of government than that specified in paragraph 2. Claims of the government include the CFA franc cash balance, postal checking accounts, subordinated debt (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public entities (EPIC) and public enterprises, which are excluded from the calculation. Government debt to the banking system includes all debt to these same financial institutions.

5. At end-December 2002, net bank credit to the government as defined above stood at CFAF -48.0 billion.

6. The ceilings on the net credit to the government vis-à-vis the banking system will be adjusted downward (upward) by the amount by which disbursements on budgetary assistance exceed (fall short of) the amount programmed. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative)). In the context of the program, cumulative (since end-December 2002) external budgetary assistance is expected to reach CFAF 6.6 billion at end-March 2003 and CFAF 11.3 billion at end-June 2003, and to remain at that level through end-December 2003.

7. The ceiling on net bank credit to the government will be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed for restructuring expenditure and the amount of newly issued treasury bonds held by the nonbanking sector. In the context of the program, cumulative restructuring expenditure (since end-December 2002) is expected to reach CFAF 2.5 billion at end-March 2003, CFAF 5 billion at end-June 2003, CFAF 7.5 billion at end-September 2003, and CFAF 10 billion at end-December 2003.

8. The ceiling on net bank credit to the government will also be adjusted downward by the amount of underspending on projects financed by HIPC Initiative resources. Targets for cumulative spending on projects financed by the HIPC Initiative (since end-December 2002) are CFAF 4.9 billion at end-March 2002, CFAF 9.9 billion at end-June 2002, CFAF 14.8 billion at September 2002, and CFAF 10 billion at end-December 2003.

Performance criteria and benchmarks

9. The ceiling on net bank credit to the government is established as follows: CFAF -49.7 billion as at end-March 2003, CFAF -48.8 billion at end-June 2003, CFAF -43.4 billion at end-September 2003, and CFAF -46.8 billion at end-December 2003. The ceiling is a performance criterion as at end-March and end-September 2003, and an indicative target as at end-June 2003 and end-December 2003.

Reporting deadline

10. Provisional data on net credit to the government, including a detailed list of the bank account balances of other public entities, will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

B. Deficit of the Central Government

Definition

11. The deficit of the central government is defined as the opposite of the sum of net external financing (excluding grants and debt service relief) and domestic financing of the central government. Domestic financing includes bank and nonbank financing. Net external financing is the sum of external project financing and budgetary assistance, minus amortization due on public external debt.

12. The ceiling on the deficit (surplus) of the central government will be reduced (increased) by the amount by which disbursements on non-project grants or debt service relief exceed the amount programmed. The ceiling on the deficit (surplus) of the central government will also be reduced (increased) by the amount of underspending on projects financed by HIPC Initiative resources. The ceiling on the deficit (surplus) of the central government will be increased (reduced) by the amount by which disbursements on budgetary assistance or debt-service relief fall short of the amount programmed.

13. In the context of the program, the deficit of the central government is expected to reach CFAF -7.6 billion at end-March 2003, CFAF -13.0 billion at end-June 2003, CFAF -22.1 billion at end-September 2003, and CFAF -25.2 billion at end-December 2003. The ceiling is a performance criterion as at end-March and end-September 2003, and an indicative target as at end-June 2003 and end-December 2003.

Reporting deadline

14. Provisional data on the deficit of the central government, including the situation of all other elements of the table of government financial operations (TOFE), will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

C. Nonaccumulation of External Public Payments Arrears

Definition

15. External payments arrears are defined as the sum of external payments due and not paid on external liabilities of the government and on foreign debt held or guaranteed by the government. The definition of external debt provided in paragraph 3 applies here.

Performance criterion

16. Under the program, the government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The performance criterion on the nonaccumulation of external payments arrears will be monitored on a continuous basis throughout the program period.

D. Ceiling on Nonconcessional External Debt With a Maturity of One-Year or More Newly Contracted or Guaranteed by the Government

Definition

17. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), but also to commitments contracted or guaranteed (including lease-purchase agreement) for which no value has yet been received. The definition of external debt excludes bonds issued in the regional market and disbursements under the PRGF arrangement.

18. The concept of "government" for the purposes of this performance criterion includes government as defined in paragraph 2, public institutions of an administrative nature (EPA), public institutions of a scientific and/or technical nature, public institutions of a professional nature, and local governments.

Performance criterion

19. Nonconcessional external borrowing will be zero throughout the 2002-03 program.

Reporting deadline

20. Information on any borrowing (including terms of loans and creditors) contracted or guaranteed by the government shall be transmitted each month within four weeks following the end of the month.

**E. Ceiling on Short-Term External Debt Newly Contracted
or Guaranteed by the Government**

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-related loans and debt-relief operations are excluded from this performance criterion.

Performance criterion

23. In the context of the program, the government will not contract, guarantee, or secure short-term nonconcessional external debt.

24. As of December 31, 2002, the government of Benin has no short-term external debt.

III. INDICATIVE TARGETS

25. The indicative targets for the program comprise quarterly minimum spending targets for health and education. These include both current capital and expenditures, including foreign-financed investments. The floor for health expenditure is on an accumulated basis (since end-December 2002) CFAF 8.9 billion for end-March 2003, CFAF 17.8 billion for end-June 2003, CFAF 26.7 billion for end-September 2003, and CFAF 35.6 billion for end-December 2003. The floor for education expenditure is on an accumulated basis (since end-December 2002) CFAF 19.6 billion for end-March 2003, CFAF 39.1 billion for end-June 2003, CFAF 58.7 billion for end-September 2003, and CFAF 78.2 billion for end-December 2003.

26. The indicative targets for the program also contain the civil service wage bill. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security forces, and it includes all similar expenditure with respect to special contracts and other permanent or temporary employment with the government. The wage bill excludes, however, wages paid under externally funded projects and transfers to local communities for the payment of salaries of teachers and health personnel.

27. The indicative targets for the wage bill are set at CFAF 22.9 billion at end-March 2003, CFAF 49.4 billion at end-June 2003, CFAF 76.9 billion at end-September 2003, and CFAF 96.7 billion at end-December 2003 (cumulative since end-December 2002).
28. The government shall report each month's wage bill to IMF staff, in the context of the TOFE, before the end of the following month.
29. The program also includes indicative targets on total government revenues and the primary government expenditure.
30. Government revenues are defined as those that appear in the TOFE.
31. Indicative targets for total government revenues are set at CFAF 80.2 billion at end-March 2003, CFAF 162.8 billion at end-June 2003, CFAF 253.8 at end-September 2003, and CFAF 346.0 billion at end-December 2003 (cumulative since end-December 2002).
32. The government shall report its revenues to IMF staff each month in the context of the TOFE and before the end of the following month.
33. Primary government expenditure is defined as total government expenditure minus interest payments, externally financed investment expenditure, and net lending.
34. The floors for the indicative targets for primary government expenditure are set at CFAF 72.8 billion at end-March 2003, CFAF 155.2 billion at end-June 2003, CFAF 242.8 billion at end-September 2003, and CFAF 326.5 billion at end-December 2003 (cumulative since end-December 2002).
35. The authorities will report to IMF staff, in the context of the TOFE, monthly data on primary government expenditure. Data for each month will be provided no later than six weeks after the end of that month.

IV. STRUCTURAL BENCHMARKS

36. The following four measures will serve as structural benchmarks:
- By March 31, 2003, the government will adopt and implement action plans for the General Directorate of Taxes and the General Directorate of Customs, incorporating the recommendations of the Fund's September 2002 technical assistance mission.
 - By March 31, 2003, the Payroll Unit will use the single reference database for the payment of wages.
 - By March 31, 2003, the government will adopt an action plan for SIGFIP, providing for the integration of external debt service and externally financed projects into the system.

- By September 2003, the government will offer for sale its shares in the Continental Bank.

V. OTHER DATA REQUIREMENTS FOR PROGRAM MONITORING

A. Public Finance

37. The government will provide to the Fund the following:
- detailed monthly revenue and expenditure estimates, including social expenditures, payments on arrears, and HIPC Initiative-related expenditure;
 - monthly data on domestic financing (bank and nonbank) of the budget (including government bonds held by the nonbank public), which will be transmitted on a monthly basis within four weeks of the end of each month;
 - data on the implementation of the development budget, with detailed information on the sources of financing, which will be transmitted on a quarterly basis within 12 weeks of the end of each quarter; and
 - public sector external and domestic scheduled debt service and payments, and relief obtained under the HIPC Initiative (these data will be transmitted on a monthly basis within four weeks of the end of each month).

B. Monetary Sector

38. The following data will be transmitted on a monthly basis or, as specified below, within eight weeks of the end of the month:
- the consolidated balance sheets of deposit money banks, and the individual bank balance sheet, as needed;
 - the monetary survey;
 - lending and deposit rates; and
 - the standard bank supervision indicators for banks, as well as those for nonbank financial institutions and for individual institutions, as needed.

C. External Sector

39. External sector data requirements are as follows:
- Export and import data, including volumes and prices, will be transmitted on a quarterly basis within 12 weeks of the end of each quarter.
 - Other balance of payments data, including data on services, private transfers, official transfers, and capital account transactions, will be transmitted on a quarterly basis within 12 weeks of the end of each quarter.

D. Real Sector

40. The following requirements will apply to real sector data:
- Monthly disaggregated consumer price indices will be transmitted on a monthly basis within two weeks of the end of each month.
 - Any revisions to the national accounts data will be transmitted within eight weeks of the date of revision.

E. Structural Reforms and Other Data Requirements

41. Documentation of all measures undertaken by the government will be transmitted to the IMF's African Department within ten working days after the day of implementation. Any official studies pertaining to the economy of Benin will be submitted within two weeks of publication.

Benin: Relations with the Fund

(As of November 30, 2002)

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

| | | |
|---------------------------------------|--------------------|-------------------|
| II. General Resources Account: | SDR million | % of quota |
| Quota | 61.90 | 100.0 |
| Fund holdings of currency | 59.72 | 96.48 |
| Reserve position in the Fund | 2.19 | 3.53 |

| | | |
|-----------------------------|--------------------|---------------------|
| III. SDR Department: | SDR million | % allocation |
| Net cumulative allocation | 9.41 | 100.0 |
| Holdings | 0.09 | 0.93 |

| | | |
|--|--------------------|----------------|
| IV. Outstanding Purchases and Loans: | SDR million | % quota |
| Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction Growth Facility (PRGF) Arrangements | 54.79 | 88.51 |

V. Latest Financial Arrangements:

| Type | Approval Date | Expiration Date | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|-----------|---------------|-----------------|-------------------------------|----------------------------|
| PRGF | 07/17/2000 | 03/31/2004 | 27.00 | 18.92 |
| ESAF/PRGF | 08/28/1996 | 07/16/2000 | 27.18 | 16.31 |
| ESAF | 01/25/1993 | 05/21/1996 | 51.89 | 51.89 |

VI. Projected payments to the Fund:
(SDR million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|------------------|-------------|-------|------|------|------|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Principal | 0.61 | 9.59 | 8.52 | 5.98 | 5.93 |
| Charges/interest | 0.14 | 0.42 | 0.38 | 0.34 | 0.30 |
| Total | 0.75 | 10.02 | 8.89 | 6.32 | 6.24 |

VII. Implementation of HIPC Initiative:

| | |
|--|---------------------------|
| Commitment of HIPC assistance | <u>Enhanced Framework</u> |
| Decision point date | Jul 17, 2000 |
| Assistance committed (NPV terms) | End-1998 |
| Total Assistance (US\$ Million) | 265.00 |
| <i>Of which:</i> Fund assistance (SDR Million) | 18.40 |
| Completion point date | Floating |
| | |
| Delivery of Fund assistance (SDR million) | |
| Amount disbursed | 11.04 |
| Interim assistance | 11.04 |
| Completion point | 0.00 |
| Amount applied against member's obligations (cumulative) | 8.65 |

VIII. Safeguards Assessments:

The Central Bank of the West African States (BCEAO) is the common central bank of eight west African states, which include Senegal. An on-site safeguards assessment of the BCEAO completed on July 25, 2001, proposed specific remedies to alleviate vulnerabilities that were identified by the staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies:

- **Financial reporting framework.** The Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed by the BCEAO and Fund staff that the BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by the IAS, which have been adopted internationally by other central banks.
- **Internal controls system.** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed by the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), the BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

The staff follows up regularly on the BCEAO's progress in implementing the recommendations in the context of the Fund's semiannual regional consultation missions.

IX. Exchange Arrangement:

Benin is a member of the West African Monetary Union (WAMU). The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of EUR 1 = CFAF 655.957. In the first week of January 2003, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 848.79.

X. Article IV Consultations:

The last Article IV consultation discussions were held in Cotonou during March 11-22, 2002. The staff report (EBS/02/119; 7/1/02), together with a statistical appendix (SM/02/197; 7/1/02), was discussed by the Executive Board on July 15, 2002.

XI. ROSC Assessment:

An 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 urgently taken 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 (SM/02/171; 6/6/02).

XII. Technical Assistance:

| Department | Type of Assistance | Time of Delivery | Purpose |
|-------------------|---------------------------|-----------------------------------|--|
| FAD | Resident expert | September 1989- September 1994 | Advising Minister of Finance on tax reform |
| FAD | Resident expert | November 1990- November 1992 | Advising Minister of Finance on budgetary procedures |

| | | | |
|-----|----------------------|-----------------------|--|
| STA | Technical assistance | February 4-17, 1998 | Formulating a strategy to improve statistical organization and management of the Central Bank of West African States |
| FAD | Technical assistance | September 7-22, 1998 | Advising Minister of Finance on tax administration |
| STA | Technical assistance | April 17-28, 2000 | Devising new questionnaires for balance of payments statistics and reactivating the banking settlements reporting system |
| FAD | Technical assistance | April 25-May 5, 2000 | Advising Minister of Finance on tax administration |
| STA | Technical assistance | May 7-11, 2000 | Improving the collection, compilation, and dissemination of data on monetary and financial statistics |
| FAD | Technical assistance | May 16-29, 2001 | Preparing a fiscal transparency module of a ROSC and assessment of capacity to monitor and control HIPC Initiative resources |
| FAD | Technical assistance | September 11-25, 2002 | Helping the authorities strengthen domestic revenue and customs administration |

XIII. Resident Representative:

Mr. Harmsen has been the Resident Representative since November 1, 2002.

Benin: Relations with the World Bank Group

(As of January 31, 2003)

A. Partnership in Benin's Development Strategy

1. Benin's poverty reduction strategy paper (PRSP), finalized in December 2002, will be discussed at the Bank and Fund Boards in March 2003. The PRSP provides a framework for aligning donor assistance programs, including those of the Bank and the Fund, with the country's poverty reduction efforts.
2. The IMF has taken the lead in assisting Benin to maintain macroeconomic stability, under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement approved in July 2000. The PRGF arrangement addresses issues related to fiscal consolidation and structural reforms that are key to maintaining macroeconomic stability and fostering growth. The PRGF arrangement's structural conditionality has focused on the following areas: public expenditure management, tax administration, civil service reform, and the privatization program.
3. Public expenditure management reform has been an important focus of the Bank's assistance program. In close collaboration with the Fund and other donors, the Bank has provided technical and financial assistance to the government's reform efforts in this area. The Bank has also been in the lead in helping Benin strengthen the provision of basic social services, most importantly in the education and health sectors, pursuing a divestiture program in the utility and infrastructure sectors, and enhancing the competitiveness of the cotton sector.

B. IMF-World Bank Collaboration in Specific Areas

4. Common objectives and their joint support of Benin's PRSP and Initiative for Heavily Indebted Poor Countries (HIPC Initiative) processes have increased collaboration between the Fund and Bank in recent years. The Bank and Fund teams are closely coordinating their policy advice to the authorities. There is also close coordination in the determination of structural conditionality. However, the Bank's strategic shift towards programmatic lending, as outlined in the interim Country Assessment Strategie (I-CAS) (see Section C below) has had an important effect on the Bank's approach towards conditionality: the Bank is increasingly moving toward an ex post assessment of progress, and toward modulation of its financial support to the pace of reform implementation.
5. In general, the Bank is leading the policy dialogue on key structural aspects of the reform program, with a strong focus on public expenditure management. The Fund is in the lead on the policy dialogue on macroeconomic, particularly fiscal, elements of the reform. As described below, there are several specific areas in Benin's reform program where the Bank and Fund are sharing the lead in supporting the authorities and others where one or the other institutions is in the lead.

Areas in which the Bank leads

6. **Divestiture program and private sector development.** The Bank has supported Benin's program for divestiture of public enterprises through the Private Sector Development Project, the now-closed Transport Sector Project, and preparations for an Energy Services Delivery Project. The remaining enterprises to be privatized include the cotton parastatal, SONAPRA, and most public utilities: the telecommunications company (OPT), the water and electricity distribution company (SBEE), and the Autonomous Port of Cotonou (PAC). Assistance for the privatization of the OPT is provided through the Private Sector Development Project. The Bank supports the privatization of the electricity branch of the SBEE through the preparation of an Energy Services Delivery power project. Successful completion of this privatization is a condition for moving to the second of this project. The privatization of SONAPRA's ginning mills is supported by the cotton sector project (see below). The Transportation Sector Project assisted the government in designing a strategy to involve the private sector in the management of the port. The Fund is actively involved in policy dialogue on this program, given the importance of the divestiture program to macroeconomic stability and growth.

7. **Social sector reforms.** Improving access to basic social services is one of the four main strategic pillars of Benin's PRSP, and the health and basic education sectors are among the priority sectors that have received increased budget allocations in the medium-term expenditure framework (MTEF). The Bank has supported reform programs in these sectors through investment projects that were closed in the past two years. In line with its interim assistance strategy (I-CAS), the Bank is continuing to work closely with the government on enhancing access to, and the quality of, education and health care services, through policy dialogue and financial and technical assistance in the context of the Public Expenditure Reform Adjustment Credit (PERAC) and forthcoming Poverty Reduction Support Credit (PRSC). A number of key policy measures in these two sectors have been implemented as conditions for reaching the HIPC completion point, and others are expected to be taken as prior actions for the PRSC. The Bank is also playing a lead role in support of a multisector response to the HIV/AIDS pandemic, based on the government's comprehensive strategic framework covering 2000-05 and adopted in December 2000. A Bank HIV/AIDS project was approved in January 2002.

8. **Poverty monitoring.** The PRSP presents an action plan to establish a reliable data baseline on poverty in 2003 using a revised methodology. The Bank is providing technical support for the implementation of this action plan and for other efforts aimed at strengthening the knowledge basis on poverty in Benin, such as the planned Poverty and Social Impact Assessment (PSIA) on cotton sector reforms (see below). The Bank is also advising the authorities, in the context of the preparation and refinement of the PRSP, on strengthening institutional arrangements for monitoring and evaluation poverty in the country. In addition, the Bank is preparing a poverty note, to be delivered to the government in mid-2003.

9. **Cotton sector reforms.** Cotton is Benin's only major cash crop, and the sector has accounted in recent years for around 80 percent of its export earnings. The cotton sector is a key focus of the Bank's assistance program. A thorough reform of this sector, aimed at liberalization and strengthening the capacity of producers, has been in progress since the

early 1990s, with the support of the Bank and bilateral donors. Important progress has been achieved so far, such as by eliminating the monopsony of the state enterprise in cotton marketing (SONAPRA), liberalizing input supply, and opening the sector to private ginners. In 2002, the Bank Board approved a Cotton Sector Reform Project, which is supporting the consolidation of the reforms. These include the recently launched process for privatizing the SONAPRA, as well as strengthening the capacities of producers' associations and the new private institutions managing the sector. As Benin's PRSP indicates, there has been an apparent increase in poverty in rural areas including cotton-producing areas, in spite of sustained economic growth in the past years. With a view to better understanding this phenomenon and increasing the sector's contribution to poverty reduction, the Bank is assisting the government in conducting a PSIA in 2003.

Areas in which the Bank and Fund share the lead

10. **Public expenditure management reform.** Through its PERAC and related Supplemental Credit, the Bank has played a lead role in assisting the authorities in setting up a reform framework for a thorough public expenditure management reform, which was launched in 2001. The PERAC aims at enhancing the effectiveness and poverty focus of public expenditure, with the following specific objectives: (i) delegation of spending authority from the Ministries of Finance and Planning to line ministries; and (ii) a move toward performance-based budgeting through well-defined program budgets formulated within a MTEF in line with PRSP priorities. The PERAC has supported a set of institutional reforms and capacity-building measures essential to reach these objectives. The reform has achieved good progress so far, such as the finalization of a MTEF on the basis of the PRSP, completion of a performance-based budget cycle, and introduction of a computerized budget implementation system, as well as in the reporting on, and auditing of, government accounts. The Fund has supported these reform efforts through a number of financial and structural benchmarks in the PRGF arrangement. The Fund is also providing technical assistance following the recommendation of a mission in May 2001 to prepare a fiscal transparency module of the ROSC and assess the capacity to monitor and control the use of HIPC Initiative resources.

11. **Fiscal policy and fiduciary framework.** Fiscal consolidation is a key objective of the Fund-supported PRGF arrangement. The Bank is focusing on inter and intra sector allocations, in particular in the priority sectors covered by the PERAC (education, health, water and sanitation, transportation, agriculture, and environment). These priority sectors have represented about 55 percent of total expenditure excluding debt service in recent years. In addition, the Bank is helping to strengthen Benin's fiduciary framework through analytical and advisory activities (AAA), such as forthcoming updates of the Country Procurement Assessment Report (CPAR) and the Country Financial Accountability Assessment (CFAA).

12. **Poverty reduction strategy.** Together with other external development partners, the Bank and Fund have jointly provided assistance to the government in the preparation of Benin's PRSP. The PRSP will be discussed at Bank and Fund Boards in March 2003, together with a joint staff assessment prepared by Bank and Fund staff. Both institutions will

continue to jointly advise the authorities on the refinement, implementation, monitoring, and evaluation of the strategy.

13. **Debt sustainability.** The Bank and Fund have jointly supported the government's efforts to reach the Enhanced HIPC completion point, now scheduled for March 2003. In this context, the Bank and Fund staffs recently updated the debt sustainability analysis for Benin, in close collaboration with the authorities. To maintain debt sustainability after enhanced HIPC-Initiative, the authorities will need to pursue a prudent external financing policy. The Bank and Fund intend to continue the dialogue with the government on this issue, including providing advice on the required strengthening of domestic capacities for debt management.

14. **Civil service reform and devolution policy.** The Bank provided major technical assistance for the design of the reform of the civil service promotion and compensation system. Through its Enhanced Structural Adjustment Facility (ESAF) and subsequently, the PRGF, the Fund has included structural measures designed to implement this reform. However, a key measure, the adoption of legislation regarding the new compensation system for civil servants, has been stalled for several years. Another important area of public sector reform is the devolution policy, which gained momentum following the municipal elections held in December 2002. The Fund is monitoring closely the fiscal implications of this policy. The Bank has recently conducted two pieces of analytical work on public administration reform and decentralization as a basis for policy dialogue.

15. **Financial sector policy.** The Fund has supported the government's efforts to strengthen Benin's financial sector in the context of the PRGF arrangement. These efforts have focused on ensuring that banks meet the Regional Banking Commission's prudential ratios. The reform of the financial sector also includes the divestiture of the state-owned Continental Bank and the rehabilitation of microfinance institutions. As part of the Private Sector Development Project, the Bank has been providing support to two major microfinance institutions. A financial sector review is scheduled to be conducted in fiscal-year (FY) 2004.

Areas in which the Fund leads

16. **Macroeconomic stability.** The medium-term objective of Benin's macroeconomic program is to achieve strong economic growth and reduce poverty, while maintaining financial stability. The Fund is supporting this program through its PRGF framework, by providing financial and technical assistance, as well as through dialogue on macroeconomic policy reforms. The program has made satisfactory progress since the approval of the PRGF in 2000. The PRGF-supported program for 2003 is consistent with the baseline budgetary scenario of the PRSP for 2003-05. A shift to the more ambitious second PRSP scenario would require the preparation of a supplementary budget later in 2003, in consultation with the Fund and the Bank. The availability of additional concessional financing in line with debt sustainability objectives is a prerequisite for this shift.

17. **Tax and custom administrations reforms.** Enhancing Benin's fiscal revenues is a key objective of the PRGF-supported macroeconomic program. Specific measures and benchmarks aimed at this objective have been included in the PRGF structural conditionality. The authorities have prepared action plans designed to improve the performance of the tax

and customs administrations, as well as broaden the tax base. These action plans are being improved, with technical assistance from the Fund.

C. World Bank Group Strategy

18. The Bank is preparing a new CAS, scheduled for Board presentation in late May 2003. The main objective of the new CAS will be to support the implementation and further refinement of the PRSP. In line with the PRSP's objectives, the CAS will determine the contents of a Bank assistance program that aims at helping Benin consolidate the positive results achieved in growth and macroeconomic stability and at translating them into greater progress in reducing poverty. The Bank intends to align the CAS to the four PRSP pillars¹ and selectively provide assistance in areas relevant to these priorities, in accordance with its comparative advantage.

19. The new CAS will seek to advance the gradual shift of the Bank's lending program toward programmatic lending, as initiated under the I-CAS approved in January 2001 and in response to the PRSP's explicit invitation to donors to do more in that area. Building on the PERAC, the Bank expects this shift to enhance the development impact of its assistance to Benin by fostering national leadership of development programs. It should also facilitate and enhance donor coordination around Benin's PRSP. This will require, however, a continued strong commitment to advance public sector management reforms aimed at increasing efficiency in the use of public resources. To address these transitional challenges, the Bank will continue support Benin's public expenditure reform through financial and technical support. As outlined in the I-CAS, annual single-tranche PRSCs are envisaged to become a key vehicle for Bank support to the country. A first PRSC is under preparation and is expected to be presented to the Bank Board in June 2003.

20. The PRSP preparation process has fostered collaboration between the Bank and other development partners, including civil society organizations. Donors have signaled their willingness to align their assistance program to the PRSP, and some of them (the European Union, the African Development Bank, Switzerland, Denmark, and the Netherlands) are preparing budget support operations in close coordination with the Bank's PRSC preparation process.

¹ The four pillars of effective poverty reduction are the following: (i) the strengthening of the medium-term macroeconomic framework; (ii) human development and environmental management, including improving the access of the poor to quality basic services (basic education, primary health care, water and sanitation, food security and nutrition, adequate habitat, and rural roads); (iii) improvement of governance and institutional reforms, such as decentralization, public administration reform, and strengthening the legal and judicial system; and (iv) improvement of employment or income-generating opportunities for the poor and strengthening their capacity to participate in decision-making and production.

Benin: Status of World Bank Portfolio
(In millions of U.S. dollars, as of December 31, 2002)

| | Effectiveness Date | Original Principal (IDA) | Disbursed (IDA) |
|---------------------------------|-----------------------|-----------------------------|-----------------|
| Population and Health | 7/17/96 | 27.8 | 23.1 |
| PERAC | 9/1/01 | 10.0 | 10.0 |
| PERAC Supplemental | Not yet effective | 10.0 | 0 |
| Decentralized Cities Management | 3/28/00 | 25.5 | 15.6 |
| Social Fund | 4/12/99 | 16.7 | 15.4 |
| First Distance Learning Project | 11/22/00 | 1.8 | 1.2 |
| Labor Force Development Project | 3/13/01 | 5.0 | 0.9 |
| Private sector | 8/31/00 | 30.4 | 14.3 |
| Cotton Sector Reform Project | 9/12/02 | 18.0 | 0.7 |
| HIV/AIDS Multisector Project | 7/17/02 | 23.0 | 0.6 |
| Total | | 168.2 | 81.8 |

21. As of December 31, 2002, the Bank lending portfolio consisted of ten operations with a net commitment of US\$168 million and an undisbursed balance of US\$86 million (see table above). Out of these, six operations are scheduled for closure before end-2003. The new CAS will determine lending volumes for the period FY 04-FY 06. As discussed above, it is expected that a large part of IDA financing will be channeled through PRSCs. As indicated by the I-CAS, a key objective of the Bank's nonlending program is to help the government strengthen its sector-wide expenditure programs as a basis for consolidated programmatic support and building the capacity required for preparing, implementing, and monitoring these programs.

Prepared by World Bank Staff. Questions may be asked of Ms. Antoinette Sayeh, Country Director for Benin at 473 4719; or Ms. Claude Leroy, Country Economist for Benin at 5390+311

Benin: Statistical Issues

(As of end-December 2002)

1. The Beninese authorities have generally provided the core statistical indicators to the Fund (see attached table) on a timely basis. However, there are weaknesses in the areas of national accounts, public finance, monetary statistics, and balance of payments. In January 2001, the authorities adopted the General Data Dissemination System (GDSS) as the framework for the development of Benin's national statistical system. Sectoral metadata were posted on the Dissemination Standards Bulletin Board in September 2001. As a follow-up to GDSS participation, technical assistance is being offered to the eight West African Economic and Monetary (WAEMU) countries to assist them in implementing their plans for improvement. Starting April 2002, a Fund Regional Advisor initiated a six-month program of assistance on government finance statistics. A second program, involving real sector statistics, commenced in May 2002 for an initial period of six months. This latter program is being undertaken in collaboration with the regional statistical office (AFRISTAT), and with funding by the Japanese government. Benin has accepted the offer of assistance for real sector statistics. Six technical assistance missions (in addition to an assessment mission) were conducted during 2002 under this program. Benin is scheduled to receive its first mission in March 2003 under the program on government finance statistics.

Real sector

2. Beninese national statistics agencies were represented at two GDSS seminars, one in Yaoundé in October 1998 and another in Bamako in April 2001. As a follow-up to the GDSS workshop in Bamako, significant initiatives are expected to upgrade the national accounts system in Benin. National accounts follow the 1968 *Système of National Accounts* (SNA). Benin participates in a regional harmonization process of statistical methodologies under the multilateral surveillance of the West African Economic and Monetary Union (WAEMU), with the objective of improving its national accounts.

3. Starting in January 1998, Benin has been using a new consumer price index (CPI) in compliance with the standard of the WAEMU. A household budget survey is being undertaken by National Institute of Statistics and Economic Analysis (INSAE), with technical assistance provided by the French Institute of Statistics (INSEE). It is expected that the results of the survey will be used to update the expenditure weights in the CPI and, therefore, reflect the effects of the devaluation of the CFA franc on the structure of private consumption, as well as the shift in the consumption pattern from imports to domestic goods. An index of industrial production is not compiled.

Public finances

4. Monthly government finance statistics are compiled by the Ministry of Finance based on information provided by the budget, customs, tax, and treasury directorates; these data are available with a one- to three-month lag. The Ministry of Finance prepares a monthly table reconciling data on spending commitments by the budget directorate and payments by the treasury. However, no final budget or treasury accounts are published at the end of the fiscal

year. Benin does not report monthly data for publication in *International Financial Statistics (IFS)* or annual data for publication in the *Government Finance Statistics Yearbook (GFSY)*.

Monetary accounts

5. Issues in monetary statistics are dealt by the Central Bank of West African States (BCEAO). There has been improvement in the timeliness of reporting monetary data for publication in *IFS*. The authorities are now reporting monetary data to STA on a regular basis, with a significant reduction in the lag from about six months to two-three months.

6. The BCEAO has experienced difficulties in estimating currency in circulation for the individual countries, partly because of delays in processing cash in its vaults. Currency notes held in the vault are subtracted from currency in circulation, even though the former contains a large proportion of notes from other WAEMU countries. As notes are sorted out, currency in circulation and Benin's contribution to foreign assets of the BCEAO are revised upward. A money and banking statistics mission visited BCEAO in August 1997 and made recommendations that would contribute to reducing the delay. Hence, during 1999, the BCEAO accelerated the sorting out of currency notes, which resulted in a sharp increase in both currency in circulation and the central bank's foreign assets.

7. A monetary and financial statistics mission visited the BCEAO headquarters in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed the outstanding methodological issues that concern the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *Monetary and Financial Statistics Manual* and discussed the modalities for introducing an *IFS* area-wide page for the WAEMU; the new page was published for the first time in the *IFS* of January 2003.

Balance of payments

8. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO by an area-wide legislation adopted by the countries composing the union. The national agency of the BCEAO in Cotonou is responsible for completing and disseminating the balance of payments statement, while the BCEAO headquarters delineates the methodology and calculates the international reserves managed on behalf of the participating countries. Data consistency has significantly improved over the past few years, with a full transition to the *Balance of Payments Manual, Fifth edition (BPM5)*, along with improved sourcing methods and training of the bank's staff. These actions were supported by technical assistance provided by STA (Statistical Advisor from July 1996 through July 1999 posted at the BCEAO headquarters in Dakar), which contributed to the reporting of improved annual balance of payments data in the framework of the *BPM5*. These improvements covered the period 1996-99, with backward revisions since 1988, thus creating a consistent series for annual balance of payments statistics. The BCEAO national agency disseminates balance of payments statistics with seven-month lag and annual international investment position data with an eighteen-month lag, in full compliance with the GDDS guidelines.

9. Regarding trade data, the customs computer system (SYDONIA¹) was upgraded in 1999, and its installation in all main border customs offices is complete; this allows for a better monitoring of import data and should improve the coverage of informal trade, particularly with Nigeria.

10. Further improvements to the data for services and transfers (especially workers' remittances) will depend on the intensification of the contacts with reporting bodies. However, this will require a strengthening of relevant human and technical resources.

11. Concerning the financial account, the foreign assets of the private nonbanking sector are still not well covered, especially the assets of WAEMU residents, which are obtained through Bank for International Settlements (BIS) data. The organization of an annual, exhaustive survey for the reporting of foreign direct investment transactions in Benin is still in a very preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources in order to improve the quality of the balance of payment reports: the regional stock exchange transactions, and the firms' balance sheet database (*Centrale des bilans*). They have also indicated that quarterly data derived from banking settlement reports are soon to be used to assess the existing information. In addition, the BCEAO has recently implemented a compilation system allowing commercial banks to report data on payments involving nonresidents. The balance of payments compilers receive payment statements every ten days. However, this information is not used in the compilation of the annual balance of payments statements but to support data quality controls and to provide early information to the BCEAO authorities.

12. The follow-up mission at the BCEAO headquarters in April 2000 highlighted improvements in published data. However, the mission pointed out serious shortages in the human and technical resources that hampered the full implementation of the Statistical Advisor's recommendations.

13. The computer debt-management system software, SYGADE, developed by the United Nations Conference on Trade and Development (UNCTAD), was introduced in 1999 and is fully operational. Information on debt disbursement has also been fully integrated with the expenditure-monitoring system.

Poverty data

14. As explained in the joint staff assessment (JSA) of the poverty reduction strategy paper (PRSP), major methodological weaknesses remain regarding poverty data. In particular, the methodology used in the household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division

¹ The SYDONIA software, sponsored by the United Nations Conference on Trade and Development (UNCTAD) and donor countries, has already been implemented in many countries. Freely available to customs administration staff, it is provided together with appropriate staff-training schemes.

of Benin into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities have set out an action plan to address these methodological issues.

External debt

15. The Caisse Autonome d'Amortissements (CAA) is responsible for signing international loan agreements, maintaining the debt database, and servicing the government's external debt obligations. Since 1995, the CAA has been using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to record and manage the debt. For the majority of creditors, the CAA's database is fairly comprehensive, up-to-date, and contains accurate stock data, as well as projected debt-service flows, on a loan-by-loan basis. For a small number of creditors, however, regular statements are not received. Clerical errors in the database were corrected during the past two data sustainability analyses.

Benin: Core Statistical Indicators
(As of end-December 2002)

| | Exchange Rates | International Reserves | Central Bank Balance Sheet | Reserve/ Base Money | Broad Money | Interest Rates | Consumer Price Index | Exports/ Imports | Current Account Balance | Overall Government Balance | GDP/ GNP | External Debt/ Debt Service |
|----------------------------|----------------|------------------------|----------------------------|---------------------|-------------|----------------|----------------------|----------------------|-------------------------|----------------------------|---------------------|-----------------------------|
| Date of latest Observation | Current | 09/02 | 09/02 | 09/02 | 09/02 | 09/02 | 11/02 | 09/02 | 12/01 | 10/02 | 2001 | 2001 |
| Date received | Current | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 | 12/02 |
| Frequency of data | Daily | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | Annually | Annually | Annually | Annually | Annually |
| Frequency of reporting | Daily | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | Quarterly | Annually | Quarterly | Annually | Quarterly |
| Source of update 1/ | EIS/TRE | BCEAO | BCEAO | BCEAO | BCEAO | BCEAO | Ministry of Planning | Ministry of Planning | BCEAO | Ministry of Finance | Ministry of Finance | Ministry of Finance |
| Mode of reporting | Staff | Staff | Staff | Staff | Staff | Staff | Staff | Staff | Staff | Staff | Staff | Staff |
| Confidentiality | No | 2/ | 2/ | 2/ | 2/ | No | No | 2/ | 2/ | 2/ | 2/ | 2/ |
| Frequency of publication | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | Monthly | Annually | Annually | Annually | Annually | Annually |

1/ EIS/TRE=IMF, Economic Information System, and Treasurer's Department; BCEAO=Central Bank of West African States; and CAA=Autonomous Amortization Fund.

2/ Preliminary data for staff use only; actual data unrestricted.



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March 24, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Benin's Fourth Review Under the PRGF

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Benin's performance under the three-year SDR 27 million (about US\$37 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 00/43). This decision will entitle Benin to the release of SDR 4.04 million (about US\$5.5 million), which will bring total disbursements under the program to SDR 22.96 million (about US\$31 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion of Benin, Anne Krueger, First Deputy Managing Director and Acting Chair, made the following statement:

“The Beninese authorities have continued to make good progress in implementing their Fund-supported economic program in 2002. All the program’s quantitative performance criteria for end-September were met, and the four structural benchmarks were observed by end-December 2002. Economic growth remained robust; inflation continued to be moderate; although the external current account deficit widened, as a result of a sharp drop in the world cotton price. Progress was also made in the implementation of structural reforms in 2002. The civil service reform, however, continued to stall, and spending on health and education remained below target.

“Looking ahead, the authorities intend to continue to vigorously implement the ambitious economic framework underpinning the poverty reduction strategy that was adopted in December 2002. They are committed to pursuing prudent macroeconomic policies and implementing the structural reform agenda. The primary fiscal objective for 2003 is to pursue fiscal consolidation while increasing social spending, by broadening the tax base and limiting nonpriority outlays.

“Structural reforms are crucial to achieve sustained high economic growth and reduce poverty. The authorities attach high priority to private sector development, and to broadening the production base in order to reduce the economy’s vulnerability. Reform will focus on divesting public utilities; enhancing the cotton sector reform, through the privatization of the state-owned ginning company (SONAPRA); strengthening public resource management and the financial

sector; and promoting good governance. Further efforts are needed to garner broad public support for civil service reform.

“The authorities’ poverty reduction strategy was prepared through a broad consultative process, and sets out a credible policy framework for reducing poverty. The authorities are encouraged to deepen their analysis of the poverty situation and of their strategy for private sector-led growth, and to reinforce mechanisms to monitor implementation and evaluate outcomes.

“Benin has satisfied the conditions for reaching the completion point under the enhanced HIPC Initiative. The debt sustainability analysis based on end-2001 data indicates that the ratio of the net present value of Benin’s external debt to exports would decline steadily and remain below the 150 percent threshold from 2005 onwards. Some risks remain, however, owing to Benin’s dependence on a single commodity,” Ms. Krueger stated.

Statement by Damian Ondo Mañe, Executive Director for Benin
March 24, 2003

Introduction

Since 2000, Benin has been implementing a comprehensive program of macroeconomic and structural reforms with Fund support. Performance has been satisfactory and progress is being made towards macroeconomic stabilization, and in improving overall economic performance. Under the present arrangement, the determined implementation of the policy measures envisaged have enabled the country to achieve real GDP growth of 5.8 percent in 2002. Inflation has been brought down below 3 percent, and the fiscal deficit, on a payment order basis and excluding grants, was also reduced to 3.7 percent of GDP. Performance under the program remains satisfactory as all the quantitative performance criteria for end-September 2002 were met. The structural benchmarks were also met by year-end.

The establishment of a timetable for the privatization of the state-owned bank at end-December 2001 was the only unmet structural benchmark due to the lack of reaching an agreement on the agenda. This missing criterion was fulfilled in December 2002 as a more comprehensive structural benchmark covering the rehabilitation of the bank in line with the Regional Banking Commission, along with an establishment of a new timetable was agreed on its privatization. Overall, the large participatory process in Benin is a reality as evidenced by the first municipal elections in December 2002 that were a signal of the high interest of the population to the public issues and desire to promote ownership by beneficiaries.

Fiscal Policy

Fiscal performance in 2002 continues to show significant improvement. This was made possible by a sharp improvement in tax collection by the customs and internal tax directorates. Revenue increased to 17.1 percent of GDP in 2002 from 16.2 percent of GDP in 2001, exceeding slightly the program target, while expenditures at 20.7 percent of GDP were below the projection by 1 percentage point of GDP. There was improvement in budget management due partially to the implementation of the new computerized system (SIGFIP) which was one of the important measures taken recently by the authorities to strengthen budgetary execution. It allowed for the closing of a large number of public accounts which were found to be unnecessary, thus improving efficiency and accountability. My Beninese authorities remain committed to maintaining fiscal prudence in order to contain expenditures in line with the budget.

Money and Credit

Credits to the economy increased by 19.3 percent in the 12 months to September 2002, while the government's net position continued to improve, in line with the new rule of the BCEAO that requests member countries to terminate financial assistance from the regional central

bank to the government. The banking system also gained in financial soundness. Notably, four banks out of six met the criterion of the capital adequacy ratio set to a higher minimum of 8 percent. Two remaining banks that were put under financial recovery plan, also improved their position. Overall, the financial situation of the banking system continues to improve. In addition, all the primary convergence criteria with respect to the Regional Convergence, Stability, Growth, and Solidarity Pact were met.

The microfinance sector directed at helping the poor to get financing for their activities is growing. The activity of the network, including the Federation of Rural Savings and Loans Cooperatives, (FECECAM) has shown remarkable improvement with a reduction in delinquent claims. In order to keep the momentum and allow the microfinance to continue the expansion of its assistance to the poor, the Ministry of Finance has stepped up monitoring closely the sector.

Structural Reforms

Significant progress continues to be made in the area of structural reforms. In the cotton sector, the authorities have maintained their efforts to improve its productivity and competitiveness, with a view to improving the income of producers. The efforts have involved elimination of state monopoly in the cotton sector. Private companies are now allowed to gin and export cotton, and pricing is determined through negotiations among private sector operators. The privatization of the cotton enterprise, SONAPRA, is underway, and the responsibility for the marketing and collection of cotton seed has been transferred to the autonomous agency, CSPR that coordinates ginners, input distributors, and producers. These efforts are already yielding positive results. Furthermore, in January 2002, the Beninese authorities established the legal framework to split the postal and telecommunications company (OPT) into two separate companies. The authorities have also approved the strategy for the privatization of electricity production and for the private management of the Port of Cotonou. Moreover, importation and pricing of cement have been liberalized. Other important reforms undertaken by the authorities have involved the adoption of an anticorruption law, and civil service reforms. However, as regards civil service reform, the process is still underway pending the completion of negotiations with the labor unions.

Strategy for the Medium-Term and 2003

The authorities' medium-term macroeconomic strategy is directed at achieving strong economic growth in order to reduce poverty. At the same time, the authorities are committed to maintaining financial stability by accelerating structural reforms, improving capacity building, and creating enabling environment for private sector development. They focus on agriculture and services as engines of growth, which account for almost 70 percent of GDP. Moreover, they are keen to pursue the public expenditure management reform, improve the execution and transparency of public spending and enhance the access of the poor to quality basic services. This strategy is in line with the PRSP which the authorities have finalized.

My authorities are aware that the success of their strategy depends highly on strong implementation of policy measures consistent with the PRSP and are committed to these measures. To ensure the achievement of the economic objectives, and use the PRSP as the unique reference framework for the national policies, the authorities have decided updating documents annually and revising them each three years.

For the 2003 budget frame, the authorities intend to implement measures considered as step toward achieving the medium-term PRSP objectives. In the revenue area, efforts are underway to strengthen the tax and customs administrations and expand the tax base. As regards the expenditures, the 2003 budget provides for larger increases in poverty reduction spending than in other spending. As a result, the budget deficit, on payment order basis and including grants and HIPC Initiative resources, is projected to attain 1.1 percent of GDP. The authorities are confident to cover this deficit by domestic financing. Following the recent municipal elections, the government is prepared to launch the decentralization process. To this end, they are confident to complete by mid-March 2003 the studies on the financial costs and the consequences of fiscal and accounting changes from the central government to the local governments.

The Poverty Reduction Strategy Paper

As mentioned above, my authorities have prepared a full PRSP covering the period 2003-05. The PRSP document builds on the strategy of the I-PRSP. As a result of broad-based consultations, the PRSP document is the combination of thoughtful and constructive ideas gathered from numerous consultations and present the comprehensive diagnosis of poverty in Benin, while covering the objectives and priorities the government has set out to achieve and implement through appropriate policy measures. My Beninese authorities are committed to sharpening the poverty focus and making the strategy operational. They are well aware that poverty reduction is a long process and have adopted a forward-looking attitude with a view to making the strategy fully operational, and resolving in the end all the remaining shortcomings, including methodological weaknesses, and lack of detail indications regarding the government's implementation plans. Overall, the authorities' intention is to achieve a definitive analysis of key determinants of poverty, further develop a more coherent strategy for private-sector-led growth, and ensure that fiscal decentralization will permit to achieve a full public service delivery.

A broad-based participatory process was developed at the national and regional levels building on lessons learned from previous experiences, notably the numerous round tables like the 1992 Urgent Social Action Program, the 1994 strategy to address the social dimensions of adjustment, three-Year-Development Plan in 1998-2000. My Beninese authorities put a high priority on arousing public awareness through various workshops as regards the objectives of the PRSP. The process itself, and technical and thoughtful inputs from various participants of the civil society were highly productive. Other workshops, mainly the national thematic discussions have enabled to identify sectorial priorities at the regional level with a view to establishing poverty profiles essential for strategy building.

Parliamentarians, staffs from the IMF and IDA, and other development institutions provided their inputs to the draft PRSP. The concerns and the perceptions of the poor were reflected during the regional workshops.

The program for 2003 and the DSA

In the light of the PRSP, the authorities have reassessed the main objective of their program for 2003. Consequently, the real GDP growth has been set at about 6.0 or 5.6 percent, while the consumer price will be contained at 2.4 percent and the current account deficit at 7 percent of GDP, close to the original projection. The 2003 budget seems appropriate as the revenue target consistent with the strong 2002 performance is attainable. The authorities are prepared to strengthening the tax and customs administrations, while containing the total government expenditure in 2003 at 21.7 percent of GDP.

In close collaboration with the Fund and World Bank staffs, my authorities have updated the debt sustainability analysis, which supports the completion point. The DSA is based on end-2001 debt data. The ratio of the NPV of debt to exports was previously determined at 148 percent at the decision point (including additional bilateral debt relief beyond enhanced HIPC Initiative assistance). However, it was adjusted to 155 percent at end-2001. The higher NPV ratio results from an unanticipated increase in the government borrowings but also from lower-than-projected export revenue due to lower international prices of cotton export as well as changes in the exchange rates. In order to avert increase recourse to borrowings which worsen the debt sustainability ratio, we would like to call for increase in the donors support to our authorities in form of grants. We should reiterate that presently all the completion point triggers are met. My authorities agree that concessional borrowing is essential to maintain the external debt on a sustainable path. To this end, they have moved forward to establishing a coordination committee in charge of monitoring debt policy and updating the DSA each year. Since then, they are prepared to maintain an appropriate balance between loans and grants.

Conclusion

My Beninese authorities have met the conditions for reaching the completion point under the enhanced HIPC Initiative in accordance with the decision point document. Despite the impressive efforts made, they recognize that maintaining external debt sustainability will require a prudent borrowing policy. Moreover, my authorities remain determined to implement further structural reforms which are crucial to the promotion of a private-sector-led- growth, and social policy that supports poverty reduction and achieve the Millennium Development Goals. However, the poverty remains unabated. In the circumstances, my authorities would like to count on continued support of the donor community in terms of technical and financial assistance in their fight against the pervasive poverty in Benin.