

Benin: Fifth Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; and Press Release on the Executive Board Discussion

In the context of the fifth review under the Poverty Reduction and Growth Facility and request for waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the fifth review under the Poverty Reduction and Growth Facility and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **May 21, 2003**, 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 August 26, 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 September 10, 2003** discussion of the staff report that completed the request and review.

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*

*May also be included in Staff Report

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BENIN

**Fifth Review Under the Poverty Reduction and Growth Facility
and Request for Waiver of Performance Criteria**

Prepared by the African Department

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

Approved by Donal Donovan and Martin J. Fetherston

August 26, 2003

- Discussions for the fifth review and third-year program under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou during May 7-21, 2003.
- The fourth review under the PRGF arrangement was concluded on March 24, 2003. Benin's outstanding use of Fund resources amounted to SDR 51.8 million (83.7 percent of quota) at end-June 2003. 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 were Mr. Amoussou, Minister of State in Charge of 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. Hotobah-During (Administrative 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, the political parties supporting President Kérékou obtained a large majority in the March 30, 2003 legislative elections. The cabinet was reshuffled on June 12, 2003. The two key ministers in charge of economic affairs maintained their positions.
- Macroeconomic and financial performance, which remained in line with the objectives of the PRGF-supported program in 2002, was mixed during the first half of 2003. Fiscal performance weakened during the first quarter of 2003, and two performance criteria for end-March 2003 were not met; however, the authorities took strong measures during the second quarter to put the program back on track, and the five measures that were indicative targets for end-June—and constituted prior actions for the conclusion of the fifth review—were met. All the structural benchmarks for end-March were observed.

Implementation of the program for the remainder of 2003

- In accordance with the baseline macroeconomic framework of the PRSP, adopted in December 2002, 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 7½ percent of GDP, owing to an improvement in the terms of trade.
- The budget, which reflects the objectives of the PRSP, aims at furthering fiscal consolidation, while increasing poverty-reducing expenditure. Revenue mobilization is being strengthened through the enhancement of tax and customs administration and nonpriority outlays are being strictly limited, while public expenditure management is being strengthened. The overall deficit (on a payment order basis) is to be contained at 4.6 percent of GDP.
- The structural reform program focuses on the divestiture of public utilities and the state-owned cotton ginning company, the elaboration of a new civil service strategy, and the promotion of good governance.
- The authorities have started addressing the shortcomings of the PRSP. The first annual assessment of the implementation of the poverty reduction strategy is expected to be completed by end-March 2004.

Issues raised in the staff appraisal

- Following the recent adoption of corrective fiscal measures, continuing efforts to improve tax performance, rein in nonpriority spending, and improve the level of execution of poverty-reducing expenditure will be needed to achieve the fiscal targets.

- Timely implementation of the structural reform agenda is essential to achieve the objectives of the PRSP.
- A budget for 2004 reflecting the more ambitious scenario of the PRSP, with higher expenditure in the priority sectors, should be adopted only after concessional external financing consistent with the objective of debt sustainability has been secured and the absorptive capacity regarding social spending has improved.
- Benin, which has reached the completion point under the enhanced HIPC Initiative, should pursue a prudent debt-management policy with the support of the newly created debt committee.

I. INTRODUCTION

1. The fourth review under the Poverty Reduction and Growth Facility (PRGF) arrangement was concluded on March 24, 2003 (Country Report No. 03/120).¹ At the same time, Executive Board Directors endorsed the joint staff assessment, noting that the poverty reduction strategy paper (PRSP) provides a sound basis for Fund concessional assistance to Benin, and agreed that Benin had satisfied the conditions for reaching the completion point under the enhanced HIPC Initiative. The sixth disbursement under the PRGF arrangement (SDR 2.69 million), which is contingent upon completion of the fifth review, will raise Benin's outstanding use of Fund resources to 79.5 percent of quota at end-December 2003 (Table 2).
2. In the attached letter of intent (LOI) to the Managing Director (Appendix I), the authorities request a waiver for the nonobservance of two performance criteria for the completion of the fifth review. In the memorandum on economic and financial policies (MEFP) attached to the LOI (Appendix I, Attachment I), the authorities review the performance under the program and describe the policies that will be implemented in the period ahead. The prior actions for completing the fifth review are presented in paragraph 7 of the MEFP, and the performance criteria and benchmarks for September 2003 are set out in the technical memorandum of understanding (Appendix I, Attachment II).
3. **The World Bank has remained extensively involved in Benin.** The Bank is assisting the authorities with the implementation of the public expenditure reform and the reform of the cotton sector. It also supports Benin's divestiture program and reforms in the social sectors. The Bank has initiated the preparation of a Poverty Reduction Support Credit (PRSC) to help implement the policies laid out in the PRSP. Benin's relations with the Fund and the World Bank are summarized in Appendices II and III, respectively.
4. **Benin's economic database is comprehensive but remains weak,** particularly regarding national accounts and the balance of payments. Important methodological issues on poverty data remain to be addressed (Appendix IV).
5. **On the political front,** the political parties supporting President Kérékou obtained a large majority in the March 30, 2003 legislative elections. The cabinet was reshuffled on June 12, 2003. The two key ministers in charge of economic affairs maintained their positions.

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 (www.imf.org). An extension of the PRGF arrangement to March 31, 2004 was approved by the Executive Board on July 15, 2002 (www.imf.org).

II. RECENT ECONOMIC PERFORMANCE

6. **Benin's macroeconomic performance was broadly in line with the program objectives in 2002** (Tables 3, 14, and 15). Real GDP increased by 6 percent, owing mainly to a bumper cotton crop; annual average inflation was contained at below 3 percent; and the external current account deficit is estimated to have widened as envisaged, mainly because of a sharp drop in the world cotton price at the beginning of the 2001/02 crop year. The real effective exchange rate appreciated by about 4.8 percent in 2002, owing mainly to the strengthening of the euro against the U.S. dollar.² **All the quantitative performance criteria for end-September 2002 and the corresponding indicative targets for end-December 2002 were met**, reflecting a satisfactory overall fiscal performance. The structural benchmarks were also met, although with some delay (Table 15). Spending on health and education, however, remained below target, because of continued weaknesses in the implementation capacity.

7. **Performance under the program during the first half of 2003 was mixed.** Economic activity remained buoyant, driven by strong growth in construction, industrial activity, and services,³ and inflation was subdued (the 12-month consumer price inflation at end-June 2003 was 2.5 percent). **Fiscal performance weakened during the first quarter of 2003**, reflecting shortcomings in customs administration and election-related spending overruns, while priority spending in the social sectors continued to lag; consequently, **the end-March performance criteria on net credit to the government and the overall fiscal deficit, including grants and enhanced HIPC Initiative assistance, were exceeded by a significant margin** (0.5 and 0.3 percent of GDP, respectively). **The structural benchmarks for end-March 2003 were met** (Appendix I, Attachment I, Tables 1 and 2). To address the fiscal slippages and regain the program path, **the government took strong measures during the second quarter**, including a strengthening of customs administration and spending cuts in nonpriority areas;⁴ as a result, **the five measures that were indicative targets for end-June—and that constituted prior actions for the conclusion of the fifth review—were met**. The authorities have requested waivers for the missed performance criteria, based on the corrective actions taken to address the slippages in performance.

² However, given the low inflation recorded during the past few years, the real effective exchange rate has remained relatively stable since 1995.

³ As expected, however, cotton production was 15 percent lower than the exceptional bumper crop production during the previous year, owing to less favorable weather conditions and a 10 percent decrease in the producer price, as the government discontinued the exceptional subsidy granted in 2002.

⁴ The spending cuts involved mostly the domestically-financed capital expenditure and did not affect priority sectors, which include health, education, transportation, agriculture, and environment sectors.

A. Macroeconomic Policies and Budget Management

8. During the first quarter of 2003, total revenue fell short of the program target by CFAF 6.9 billion (0.4 percent of GDP), reflecting weaknesses in customs administration, particularly regarding customs valuation and the fight against fraud (Table 5). Primary expenditure exceeded the program objective by CFAF 2.4 billion (0.1 percent of GDP), as spending for the elections and on public utilities exceeded budget appropriations by CFAF 4.5 billion and CFAF 1 billion, respectively, while priority outlays for education and health remained largely below target. As a result of these slippages, the overall fiscal deficit (on payment order basis) exceeded the target by CFAF 7.9 billion (0.4 percent of GDP).

9. Revenue performance improved in the second quarter of 2003, as the authorities started implementing the new action plan to strengthen customs administration.⁶ Overall revenue during the period exceeded program projections by CFAF 4.2 billion (0.2 percent of GDP). Cuts in nonpriority capital expenditure and measures to control spending on utility consumption allowed the government to increase education and health spending without jeopardizing the overall budget targets.⁷ For the first half of 2003, the overall budget deficit (on a payment order basis) was equivalent to 1.8 percent of GDP, in line with the program.

10. **The authorities made significant progress in strengthening government expenditure management.** Almost 300 cash advance accounts, that were not monitored through SIGFIP, were closed in January 2003, and an action plan was adopted in March 2003 to make the computerized expenditure management system (SIGFIP) fully effective by channeling all expenditure through the system. In addition, a mechanism to track all poverty-reducing public spending was put in place in May 2003.

11. Broad money contracted by 3.8 percent during the first quarter of 2003 (Table 6).⁸ This contraction resulted from the deterioration in the net foreign assets of the banking

⁶Including a strict application of customs valuations, increased use of preshipment inspection, and an intensification of the fight against fraud.

⁷ Outlays for education and health reached 86.5 percent of the targeted amount for end-June, compared with 59 percent at end-March.

⁸ 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, sometimes very large, changes in the measurement of currency in circulation and gross foreign assets of the BCEAO.

system—reflecting delays in cotton exports,⁹ as well as in the disbursement of foreign assistance to the government—which outweighed the expansion of credit (mostly to the nongovernment sector).¹⁰ The regional central bank (BCEAO) kept its interest rates unchanged from June 2001 through end-June 2003.

B. Structural Reform Implementation

12. **Progress in the implementation of the structural reforms was mixed.** As mentioned above, the structural benchmarks for end-March 2003, which aimed at strengthening government revenue collection and improving expenditure management, were met.¹¹ The privatization process for the public ginning company (SONAPRA) is advancing, with World Bank assistance; an investment bank was recruited and is helping the authorities carry out the privatization. The government also adopted new timetables for the divestiture of the electricity branch of the public utility company (SBEE), the involvement of the private sector in the management of the Port of Cotonou, and the privatization of the telecommunications company (OPT).

13. However, civil service reform continued to stall, as the National Assembly did not vote the legislation regarding the merit-based compensation system for the civil service; meanwhile, the authorities started in early 2003 to apply a recruitment policy based on fixed-term contracts to replace retiring civil servants, with a merit-based system applied to these contractual employees. In the cotton sector, the independent, privately-managed agency (CSPR), established to oversee seed cotton marketing and facilitate input credit recovery, faced temporary cash-flow problems during the 2002/03 crop season—stemming from the

⁹ Delays in cotton exports were mostly due to the late start of the commercialization of seed cotton, following protracted negotiations on the farm-gate price among the producers and ginners.

¹⁰ In parallel, credit from the microfinance institutions increased strongly in 2002, reaching a level equivalent to 21 percent of bank credit to the nongovernment sector at the end of the year, and continued its expansion during the first quarter of 2003. The main cause of this expansion was the resumption in 2002 of credit activity by the biggest microfinance institution (FECECAM), following the successful completion of the first phase of its rehabilitation plan.

¹¹ The authorities have adopted and started the implementation of action plans for the tax and customs administrations incorporating the recommendations of the Fund's technical assistance mission of September 2002. The Payroll Unit has begun using the single reference database for the payment of wages. The action plan for SIGFIP, providing for the integration of external debt service and externally financed projects into the system, has been adopted.

sales of inputs conducted outside the legal framework of the CSPR—which resulted in late payments to farmers.¹²

14. **The financial health of the banking sector improved**, as the government continued its efforts to ensure that banks meet the Regional Banking Commission's prudential ratios. As of end-March 2003, five of the seven commercial banks, representing more than 80 percent of total bank loans, complied with the new capital adequacy ratio of 8 percent.¹³ The two undercapitalized banks, including the Continental Bank, which is scheduled for privatization, were kept under close surveillance by the Regional Banking Commission in 2002; however, as the recovery plan for the Continental Bank was satisfactorily implemented, its close surveillance was discontinued. The preparations for the divestiture of the government's share in this bank are also well on track.

15. **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.**¹⁴ Benin met all the WAEMU primary convergence criteria in 2002 (Box 1). Regarding the external trade regime, the authorities took the necessary steps to comply with the regional nomenclature in the context of the WAEMU common trade policy.¹⁵

III. IMPLEMENTATION OF THE PROGRAM FOR THE REMAINDER OF 2003 AND BEYOND

16. In view of the policy slippages during the first quarter of 2003, **discussions for the fifth review under the PRGF arrangement focused on actions needed to reach the program objectives for 2003** outlined in the authorities' MEFP in January 2003

¹² The CSPR operates as a clearinghouse through which all the payments for seed cotton by ginning companies to producers and all the repayments of input credit to distributors are effected (www.imf.org). The import of inputs is subject to a competitive bidding process set up with the assistance of the World Bank. Delayed payments to farmers, which amounted up to CFAF 17.5 billion (0.9 percent of GDP) at end-May 2003, have receded since then and payments are expected to be completed by end-September 2003.

¹³ However, as mentioned in the MEFP (para.10), the share of bad debt increased slightly from 4.3 percent of the total portfolio of the banks at end-2001 to 4.8 percent at end-March 2003.

¹⁴ The pact, adopted in December 1999, reinforced the system of mutual surveillance through a new set of relevant criteria in order to support the common pegged exchange rate regime and boost the regional reform agenda.

¹⁵ 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 in Benin.

(www.imf.org). The program for 2003 aims at laying solid bases for sustained growth and poverty reduction through fiscal consolidation, improvements in the execution of poverty-reducing expenditure, and implementation of the structural reform program. It reflects the authorities' poverty reduction strategy laid out in the PRSP for 2003-05, which, along with a medium-term expenditure framework, was finalized in December 2002.¹⁶

17. In light of developments during the first half of 2003 and the new measures taken to address the fiscal slippages, **the authorities and the staff agreed that the key macroeconomic objectives for 2003 could be achieved.** Real GDP growth is projected to reach 5.6 percent, and average consumer price inflation is expected to be contained at below 3 percent; the external current account deficit, however, was revised upward from 7 to 7½ percent of GDP, in view of the latest World Economic Outlook projections.¹⁷

A. Fiscal Policy and Budget Reform

18. **The staff considers that the new measures adopted by the authorities in the fiscal area, if implemented forcefully, would enable Benin to meet the program fiscal targets for 2003.**¹⁸ These measures focus on enhancing revenue mobilization, improving the execution of poverty-reducing expenditure, reducing nonpriority spending, and further strengthening public expenditure management. The authorities already started implementing these measures during the second quarter of 2003, which has enabled them to redress the situation and return to the program's fiscal path.

19. **On the revenue side,** the staff considers that the target envisaged in the 2003 budget for total revenue (17 percent of GDP) is attainable if the new action plans for the tax and

¹⁶ The PRSP presents two budgetary scenarios for 2003-05: a baseline scenario reflecting external financing that was confirmed by donors at the time of the finalization of the PRSP; and a second, more ambitious, budgetary scenario with a higher level of social and infrastructure expenditures (see Country Report No. 03/62; and Country Report No. 03/120). The macroeconomic frameworks reflecting these two budgetary scenarios are presented in the columns for years 2004 and 2005 in Tables 3-9.

¹⁷ The improvement in the terms of trade was revised downward. The impact of the conflict in Côte d'Ivoire on Benin's economy has remained very limited.

¹⁸ The 2003 budget, which was adopted by the National Assembly in December 2002, reflects the baseline scenario for government financial operations in the PRSP. It aims at containing the overall fiscal deficit, on a commitment basis and excluding grants, at 4.6 percent of GDP, while increasing spending for priority sectors. The authorities have decided they would not, as originally envisaged, prepare a supplementary budget for 2003 to implement the more ambitious alternative scenario of the PRSP because foreign financing for 2003 is no longer expected to exceed the amount already budgeted, as most development partners intend to align their support with the government's next budget cycle.

customs administrations, which incorporate all the recommendations of the Fund's September 2002 technical assistance mission, are effectively implemented.¹⁹ As outlined in the MEFP (para. 15), measures concerning **customs administration** focus on (i) applying transaction values to all imports; (ii) including foodstuffs in the area covered by the import verification company; (iii) monitoring goods in transit to neighboring countries; (iv) strengthening the collaboration between the customs and tax administrations, and between customs and the import verification company; (v) collecting unpaid obligations after customs clearance; and (vi) fighting fraud and corruption. Regarding **tax administration**, efforts focus on (i) improving the taxpayer database; (ii) collecting tax arrears; and (iii) strengthening tax audits. A Fund technical assistance team is scheduled to visit Cotonou in October 2003 to assist the authorities in monitoring the implementation of the new action plans. Measures are also being taken to improve the collection of nontax revenue, particularly dividends and debt-service payments on external loans on-lent to public enterprises.

20. **On the expenditure side**, primary expenditures, excluding externally financed investment, will be contained at 16 percent of GDP, as set in the 2003 program. In May 2003, **the authorities approved cuts in current and capital nonpriority expenditure** totaling CFAF 10 billion (0.5 percent of GDP) to offset overspending at the beginning of the year, as well as a potential revenue shortfall, while safeguarding priority outlays in the social sectors.²⁰ The wage bill will be kept within the limits set in the budget (4.8 percent of GDP).²¹ The authorities have also taken measures to contain government spending on public utilities (especially telephone and electricity) within budgetary allocations. In parallel, they have introduced actions to improve the execution of poverty-reducing expenditures, including increased use of autonomous agencies in the implementation of projects and training for public servants in line ministries on the new budgetary procedures (MEFP, para.18).

21. The authorities will strengthen **public expenditure management** in order to improve the monitoring of budget execution, streamline budget procedures, and enhance transparency

¹⁹ The authorities started implementing the new action plans for the tax and customs administrations during the second quarter of 2003.

²⁰ The expenditure cuts would not only compensate for overspending on the elections during the first quarter of 2003 (CFAF 4.5 billion), but also cover potential revenue shortfall and expenditure overruns on public utilities.

²¹ The wage bill target for end-June was slightly exceeded, but payments remain within the budgetary appropriations, as explained in the MEFP (para. 4). The wage bill target for 2003 will not be affected by the ongoing discussions with the civil service trade unions, which started in the wake of strikes in the public sector during the first quarter of 2003 (MEFP, para. 16).

and the tracking of poverty-reducing outlays (MEFP, para.19). In this regard, they will implement the action plan to make the computerized expenditure management system (SIGFIP) fully operational by channeling all expenditure, including external debt service, through the system by end-September 2003 (a structural benchmark) and externally financed public investment in the course of 2004. To limit exceptional budgetary procedures, the authorities will further reduce the number of cash advance accounts (*comptes des régisseurs*), with a view to gradually eliminating all of these accounts in the medium term. In particular, cash advance accounts will be restricted by end-December 2003 to one account per administrative structure for current spending, and will be eliminated by end-2004 for capital spending. To enhance the **tracking of poverty-reducing expenditures**, the authorities established, in collaboration with World Bank and Fund staffs, a comprehensive listing of poverty-reducing outlays; the execution of these outlays will be closely monitored to ensure that they are effectively spent, in line with the PRSP objectives.²² A Fund technical mission is scheduled to visit Cotonou in August 2003 to assist the authorities in monitoring the implementation of the measures regarding public expenditure management.

22. The authorities are preparing a **report on cross claims and debts between the public enterprises and the government**, to be completed in September 2003; they also intend to audit those claims and debts,²³ and to adopt, during the first quarter of 2004, a plan to settle the cross debts and prevent the accumulation of new ones (MEFP, para. 20). In the meantime, measures are being implemented to strengthen the physical control of the central government's use of services provided by public enterprises, and to expedite the verification and settlement of invoices from public enterprises.

23. Regarding the **devolution process**, which started following the December 2002 municipal elections, the authorities completed studies on the modalities and the cost of transferring jurisdictions in order to facilitate the transfer of the management of budget appropriations currently administered centrally on behalf of local governments. Legislative texts relating to the fiscal and accounting framework of the local governments have already been adopted. The authorities will finalize by end-September 2003 a follow-up action plan for the transfer of the management of budget appropriations (MEFP, para. 22). The staff and the authorities concurred on the importance of strengthening local governments' capacity so that this transfer does not weaken expenditure control.

24. The Fund and Bank staffs had expressed concerns, in the PRSP Joint Staff Assessment (Country Report No. 03/111), that the **large infrastructure projects** scheduled

²² Table 12 provides the listing of those poverty-reducing outlays, as well as their estimated level of execution at end-March and end-June 2003. The authorities intend, starting with the 2004 budget, to substitute quarterly targets on total poverty-reducing outlays for those currently relating to health and education expenditures.

²³ The launching of the audit of claims and debts between the government and the public enterprises is a structural benchmark for end-September 2003.

under the Government Action Program for 2001-06 could crowd out priority spending. The authorities indicated that they intended to assess the macroeconomic and fiscal impact of these projects in close collaboration with the Fund and World Bank staffs, and to share with the staffs all the relevant information on these projects, starting with the draft terms of reference for the studies of their feasibility and financial implications. (MEFP, para. 21).

25. **The authorities indicated that they were seeking external assistance to finance the more ambitious budget scenario of the PRSP for 2004.** Major donors (including the World Bank, the African Development Bank, the European Union, and bilateral donors) had already expressed their intention to provide the budgetary assistance needed to cover the projected financing gap in the form of grants and highly concessional loans, in order to maintain Benin's external debt on a sustainable path. The staff underscored that, for the authorities to secure the identified concessional financing in time for the preparation of the budget for 2004, good performance under the 2003 program, together with further progress in the implementation of poverty-reducing outlays, would be critical as this would help demonstrate their capacity to achieve the targets of the PRSP.

B. Regional Monetary Policy and the Financial Sector

26. **Regional monetary policy will remain consistent with the fixed peg regime and an increase in net foreign assets of the BCEAO.** For Benin, broad money is projected to increase in line with nominal GDP (8.2 percent) in 2003. Net domestic assets of the banking system are projected to rise by 5.2 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 14 percent.

27. **Regarding the soundness of the financial sector,** the authorities intend to continue, as stated in the MEFP (para. 23), to encourage commercial banks to comply with the regional prudential regulations, thereby consolidating the gains made in 2002 and in early 2003. The authorities remain committed to implementing the recovery plan for the Continental Bank and divesting the government's stake in the bank by end-September 2003—a structural benchmark for September 2003. In the microfinance sector, the government is to continue to support the rehabilitation of the largest microfinance institution (FECECAM) and will intensify the supervision of the sector.

C. Other Structural Reforms

28. **The authorities are committed to accelerating the structural reform program to improve the quality of public expenditure and utility services and raise growth in accordance with the PRSP (MEFP, paras. 24-27).**²⁴ They indicated that, following the legislative elections and the recent cabinet reshuffle, the new government will be in a position to

²⁴ Box 2 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.

advance on the pending issues, including those concerning the divestiture program and the civil service reform.

29. The **divestiture program** is to be implemented according to a realistic timetable established in collaboration with the World Bank. For the electricity company, the bidding process for the privatization, which is supported by the World Bank, is expected to be launched in early 2004, and should be completed in the second half of 2004. In the meantime, the authorities intend to continue to implement the action plan for the financial rehabilitation of the company, adopted in December 2002. Regarding the privatization of the Port of Cotonou, the feasibility study on the option selected by the government is scheduled to be completed by end-2003, and the private operators should be selected in the course of 2004. With respect to the telecommunications company, the privatization process is to be completed by end-2004.

30. In the **cotton sector**, the authorities intend to complete the **privatization of SONAPRA**, with the support of the World Bank, before end-2003. They have also taken measures to avoid the recurrence of the problems encountered by the CSPR during the last crop season, and, more generally, to reinforce the role of the private sector institutions established in the framework of the reform (MEFP, paras. 24 and 25).

31. Regarding the **civil service reform**, the authorities stressed that the prospects for a vote by the National Assembly on the amendments to the proposed legislation on a new merit-based compensation system are weak and that there is a lack of social consensus on this legislation. In order to achieve the objectives of the reform, they intend to develop a new civil service reform strategy with donor support by the end of 2003 (MEFP, para. 26).²⁵ In the meantime, they will continue to implement the recruitment policy based on the use of fixed-term contracts to replace retiring civil servants, with a merit-based system applied to these contractual employees. Regarding the **pension fund for the civil service (FNRB)**, an actuarial study is to be completed by end-2003,²⁶ on the basis of which the government intends to elaborate a strategy to eliminate the medium-term financial deficit of FNRB in the course of 2004.

D. Governance

32. The authorities are implementing the national strategy to fight corruption adopted in July 2002. To improve the transparency of government procurement, detailed procurement reports, including all calls for tender, tender evaluations, and tender awards, have been published regularly since January 2003. The first governance and anticorruption survey is to

²⁵ In this regard, they will benefit from the background studies on public administration reform and decentralization conducted by the World Bank in 2002.

²⁶ The completion of the actuarial study has been postponed from end-September 2003 to end-2003 due to delays in finalizing the terms of reference for the study.

be completed by the end of 2003. As regards the privatized petroleum products distributor (SONACOP), the authorities intend to continue to implement the action plan adopted in October 2002 to recover the remaining balance of unpaid customs duties.

IV. POVERTY REDUCTION STRATEGY

33. **The authorities have started addressing the shortcomings of the PRSP identified in the JSA.** To improve the poverty diagnosis, a national household survey on living conditions and a poverty and social impact analysis (PSIA) of past and future cotton sector reforms are being conducted, with the assistance of the World Bank.²⁷ In addition, the private sector development strategy is being deepened, and the mechanism for monitoring and evaluation of the PRSP implementation is being strengthened (MEFP, para. 29). The authorities plan to complete the first progress report on PRSP implementation by end-September 2003 and to finalize the first annual assessment of the poverty reduction strategy by end-March 2004. A comprehensive audit and impact assessment of 2000 HIPC expenditures was completed in December 2002; according to the audit, funds reached the intended beneficiaries (mostly schools and health centers) and were used for the intended purpose. The audit of 2001 HIPC expenditures has been launched and is expected to be completed by end-September 2003.

V. THE EXTERNAL SECTOR OUTLOOK AND CAPACITY TO REPAY THE FUND

34. The medium-term balance of payments projections presented at the time of the fourth review of the program have been updated (Tables 7 and 8), based on the most recent projections of the World Economic Outlook and domestic developments. Benin's external current account deficit is expected to narrow gradually from 7.5 percent of GDP in 2003 to 6.4 percent in 2005 under the baseline scenario of the PRSP, mainly reflecting the projected recovery of the world cotton price. Under the alternative PRSP scenario, the external current account deficit would remain at its 2003 level, as higher foreign-financed public expenditure would translate into higher imports.

35. Over the period 2003-05, debt service to the Fund, expressed in percent of exports of goods and services, would decrease from 3.2 percent to 1.4 percent (Table 10); outstanding credit to the Fund would decrease from 13.5 percent to 8.1 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, is expected to discharge its future obligations to the Fund in a timely manner.

36. The debt sustainability analysis, which supports the enhanced HIPC Initiative completion point reached on March 24, 2003, underscores the need to pursue a prudent policy as regards new borrowings in order to maintain the external debt on a sustainable

²⁷ The poverty and social impact analysis of Benin's cotton sector reform is expected to be completed by end-September 2003.

path.²⁸ In this regard, the authorities have established a national debt committee that is responsible for drafting and monitoring overall external debt policy and annually updating the debt sustainability analysis. In parallel, the authorities will increase reliance on grants and highly concessional loans for the financing of investment projects.

VI. STATISTICAL ISSUES

37. National accounts statistics suffer from the lack of a comprehensive data collection system, which is reflected in deficient data for the output of the informal sector, and 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 is also participating in a regional project to harmonize and improve macroeconomic data (Appendix IV).

VII. PROGRAM MONITORING

38. The authorities have complied with the prior actions and established structural benchmarks for September 2003. Quarterly performance criteria and quantitative indicators for September and December 2003 remain unchanged (MEFP, para. 33 and Table 2). In light of the PRSP, structural benchmarks were chosen to improve public expenditure management and to strengthen the banking system. Progress under the program will be assessed in the context of the sixth review of the PRGF arrangement.

VIII. STAFF APPRAISAL

39. **Following satisfactory economic and financial performance under the PRGF-supported program in 2002, performance was mixed during the first half of 2003.** Economic activity remained strong and inflation subdued. Fiscal performance weakened during the first quarter of 2003; as a result, two performance criteria for end-March were not met. However, the authorities took strong measures during the second quarter to put the program back on track, and all the measures which were indicative targets for end-June were met. All the structural benchmarks for end-March were observed. Spending on health and education, however, remained below the quantitative benchmarks, and the civil service reform continued to stall.

²⁸ The results of the debt sustainability analysis supporting the enhanced HIPC completion point are presented in www.imf.org.

40. **The staff considers that the measures adopted by the authorities in the fiscal area, if implemented forcefully, would enable Benin to meet the program objectives for 2003;** these objectives reflect the government's poverty reduction strategy, presented in the PRSP adopted in December 2003. The achievement of the fiscal targets will require strengthening implementation of the action plans aimed at improving the performance of the tax and customs administrations, as well as continuing the efforts to rein in nonpriority current spending and to improve the level of execution of priority expenditure. In parallel, the strengthening of the expenditure management system will enhance transparency and the tracking of poverty-reducing outlays.

41. The authorities have indicated that they are seeking additional external assistance to finance the more ambitious alternative scenario of the PRSP starting in 2004. To that end, **the budget for 2004, which commits higher expenditure to priority sectors, should be adopted only after concessional financing consistent with the objective of debt sustainability has been secured and absorptive capacity regarding social spending has improved.**

42. **Implementation of the structural reform agenda is of critical importance for achieving the objectives of the PRSP.** The timetable established 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 a new civil service reform strategy be defined rapidly.

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

44. **To maintain the external debt on a sustainable path, following the reaching of the completion point under the enhanced HIPC Initiative in March 2003, a prudent debt-management policy will need to be pursued,** with the support of the new debt committee; in particular, reliance on grants and highly concessional loans should be increased, and limits on government deficit (excluding grants) strictly adhered to.

45. The authorities should continue addressing the shortcomings of the PRSP identified in the JSA and **complete the first annual assessment of the implementation of their poverty reduction strategy by end-March 2004.**

46. **Risks to the medium-term program remain, but they 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 will be key to the long-term resilience of the economy. Also, absorptive capacity as regards poverty-reducing public expenditures should be improved so as to achieve the objectives of the PRSP.

47. In view of the corrective actions taken to address the slippages in fiscal performance during the first quarter of 2003 and achieve the program objectives, and the resulting success

in meeting the prior actions, **the staff recommends that waivers for the missed performance criteria be granted and the fifth review under the three-year PRGF arrangement be concluded.**

Box 1. Benin: Compliance with WAEMU Convergence Criteria

(In percent, unless otherwise indicated)

	Convergence criterion	1999	2000	2001	2002
Primary criteria					
Basic fiscal balance/GDP 1/	≥ 0.0	2.8	1.9	0.4	0.1
Basic fiscal balance/GDP 2/	≥ 0.0	2.8	2.2	1.4	1.0
Inflation (annual average)	≤ 3.0	0.3	4.2	4.0	2.4
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	≤ 35.0	33.0	32.0	32.6	31.9
Domestically financed investment/tax revenue	≥ 20.0	13.9	15.0	22.4	19.3
Current account deficit, excluding public transfers/GDP	≤ 5.0	8.7	8.1	7.9	8.2
Tax revenue/GDP	≥ 17.0	13.7	14.6	14.2	15.0

Sources: Beninese authorities; and staff estimates.

1/ The 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/ Includes domestic and external debt.

4/ In billions of CFA francs.

Box 2. 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, relating to civil service reform, that was observed with a delay. 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 first half of the third-year program included two structural benchmarks on improving expenditure management and one on strengthening government revenue collection. All three benchmarks were met. The second half contains two structural benchmarks on improving expenditure management and one on strengthening the banking system.

Structural areas covered by World Bank lending and conditionality

The World Bank has assisted the authorities in public expenditure management through a Public 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 measures to (i) enhance public expenditure management; (ii) improve access to potable water and better sanitation in rural and semi-urban areas; (iii) improve the performance of the national health system; and (iv) improve the access to basic education. As outlined in its Country Assistance Strategy of 2003, the Bank plans to progressively channel its assistance through consolidated programmatic lending to support growth and poverty-reducing policies, in the context of well-designed, multiyear program budgets. This implies that the Bank will move increasingly toward making ex post assessments of progress, and toward modulating its financial support to the pace of reform implementation.

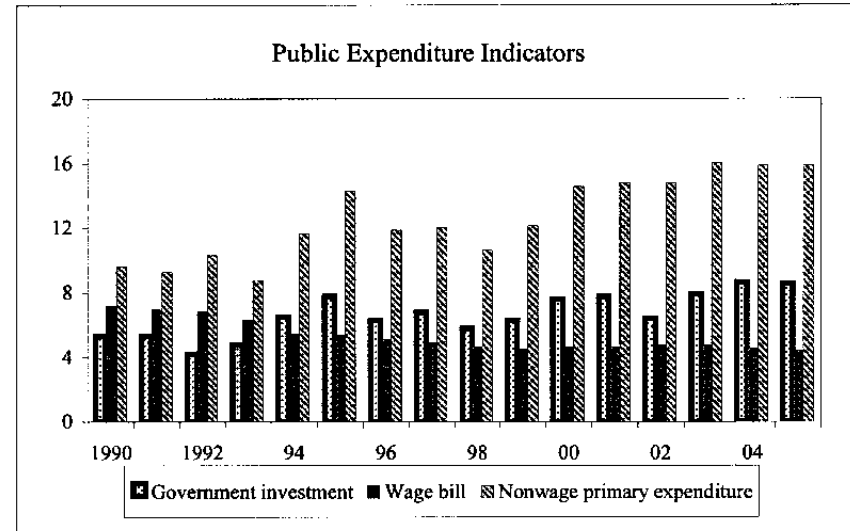
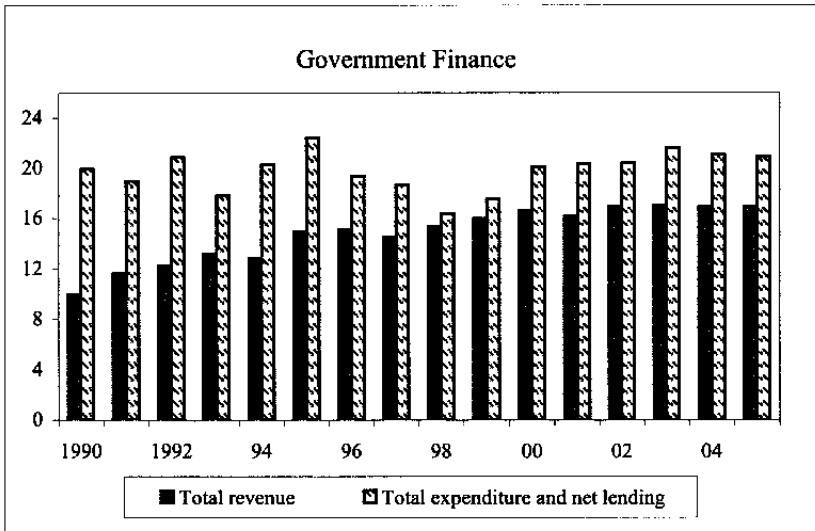
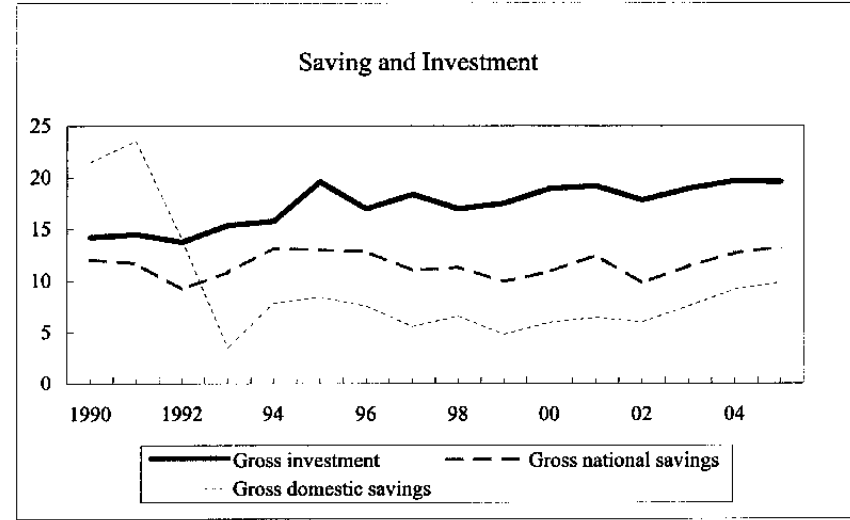
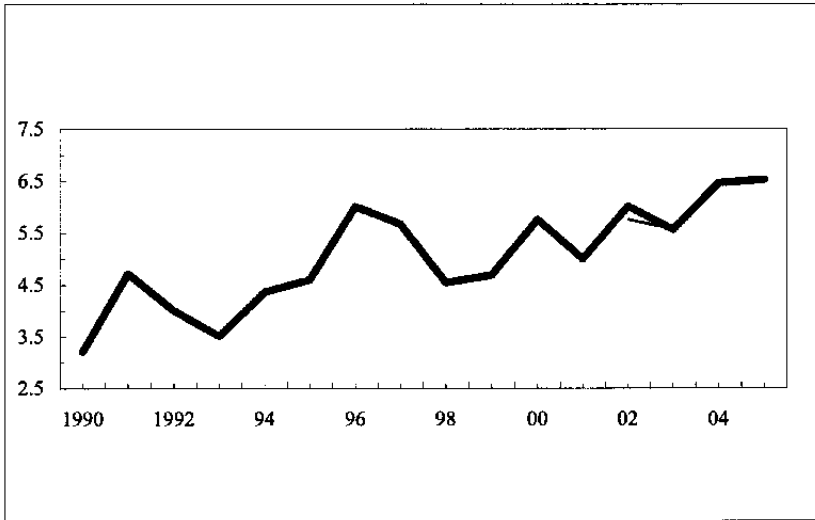
The World Bank is assisting the authorities in the cotton sector and in the privatization of the state-owned ginning enterprise, SONAPRA, for which it approved a sectoral credit in January 2002. The Bank is also preparing an Electricity Services Project that will, inter alia, support the privatization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

Other areas relevant to the Fund-supported program and in which the Bank is assisting the authorities include the following: (i) 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 a new analysis of public administration reform and decentralization, as a basis for policy dialogue.

Other relevant structural conditions not included in current program

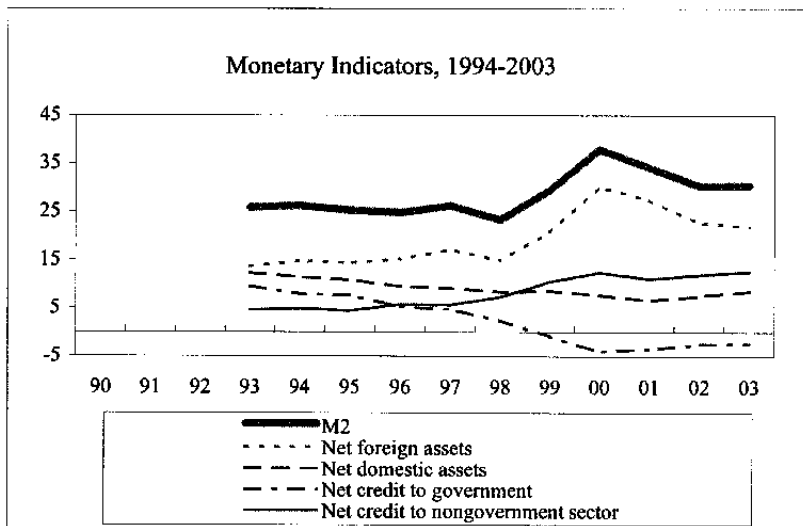
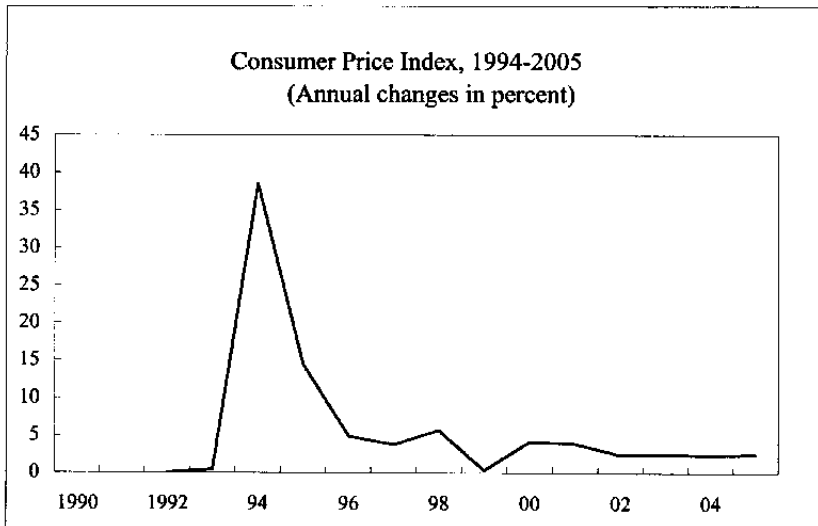
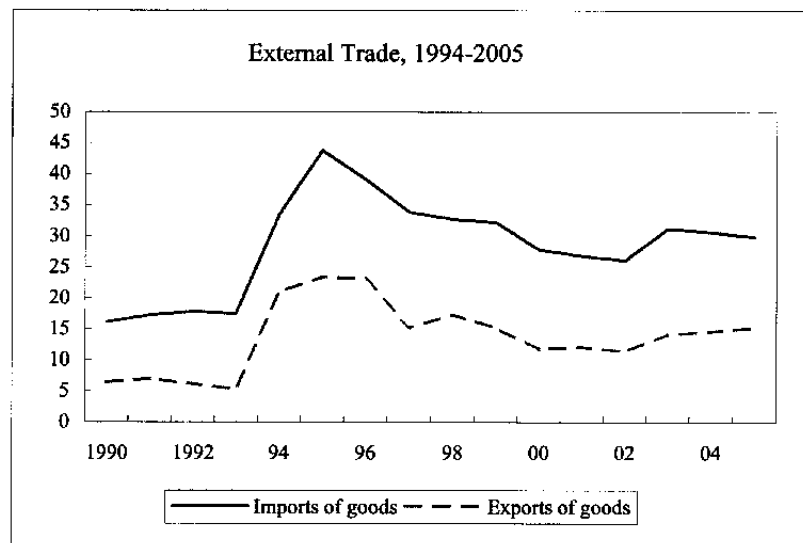
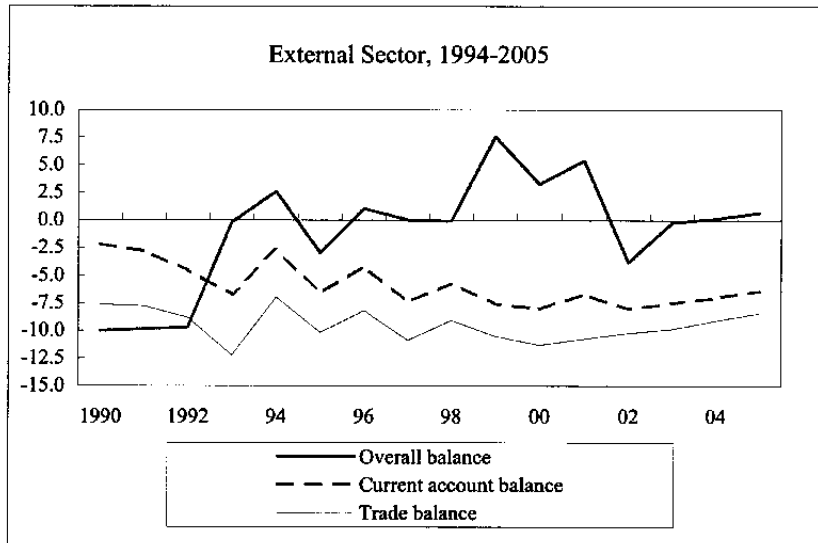
The privatization of public enterprises outside the cotton and electricity sectors is an area of macroeconomic relevance, particularly for the objective of boosting growth, which is not covered by any conditionality.

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



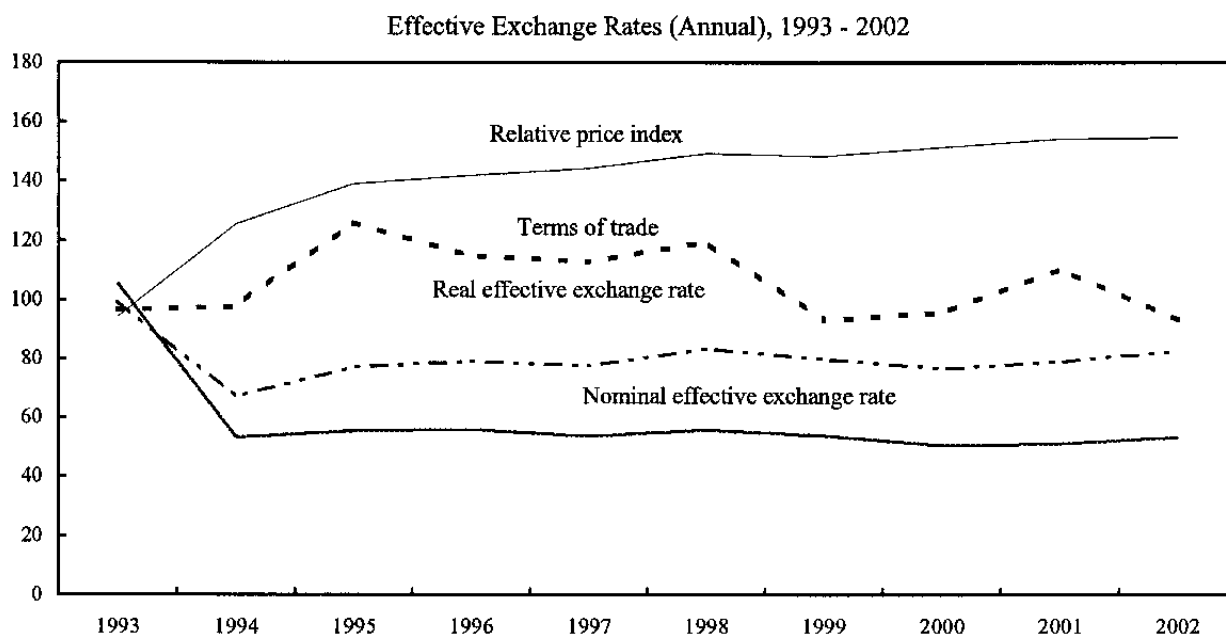
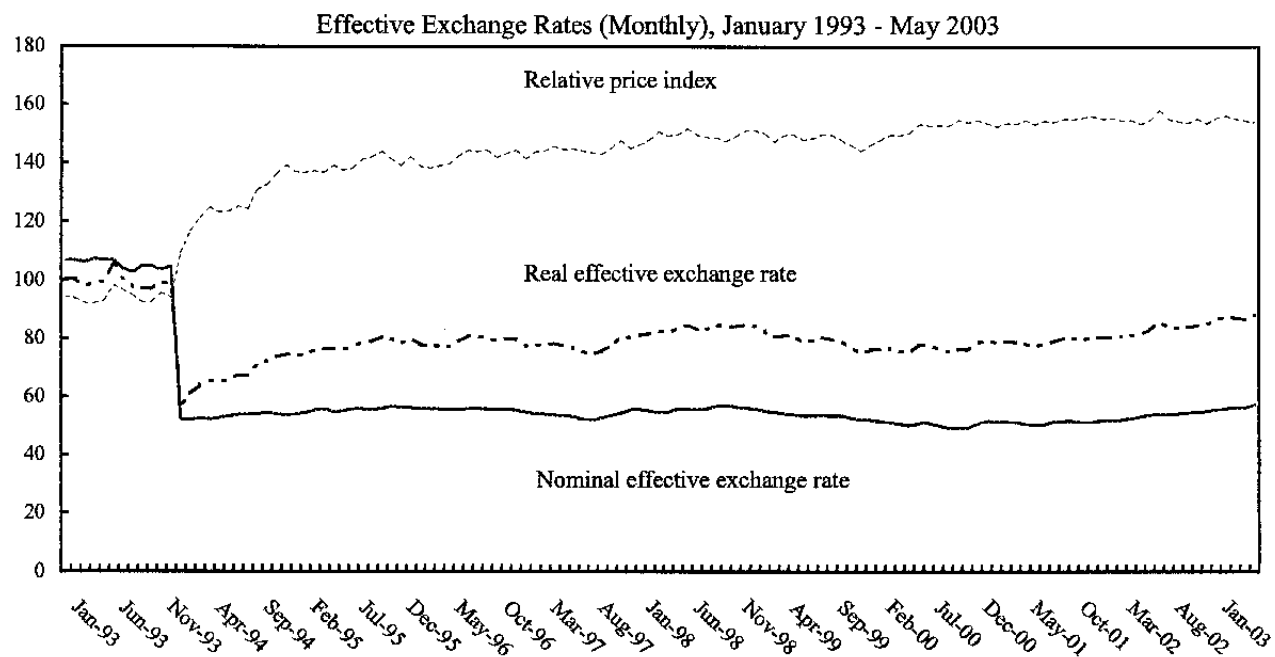
Sources: Beninese authorities; and staff estimates and projections.
1/ 2003-05 data are projections.

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
(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

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 2.69 million	September 15, 2003	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 2003-05

	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	-2.83	-3.37	-4.17	-3.61	-2.70
Loans	4.04	2.69	1.35	0.00	0.00	0.00
Repayments 1/	-6.32	-5.52	-4.72	-4.17	-3.61	-2.70
Repayments (principal)	-6.10	-5.31	-4.53	-3.99	-3.44	-2.54
Repayments (interest)	-0.23	-0.21	-0.19	-0.18	-0.17	-0.16
Total Fund credit outstanding, end of period	51.83	49.20	46.02	42.04	38.59	36.06
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	51.83	49.20	46.02	42.04	38.59	36.06
	(In percent of quota)					
Total Fund credit outstanding, end of period	83.7	79.5	74.3	67.9	62.3	58.2
Tranche policies	0.0	0.0	0.0	0.0	0.0	0.0
SAF	0.0	0.0	0.0	0.0	0.0	0.0
ESAF/PRGF	83.7	79.5	74.3	67.9	62.3	58.2

Source: IMF, Finance Department.

1/ Before enhanced HIPC Initiative debt relief.

Table 3. Benin: Main Economic Indicators, 2000-05

	2000	2001	2002	2003 Prog.	2004		2005	
					PRSP Scen. 1	Scen. 2	PRSP Scen. 1	Scen. 2
(Annual changes in percent, unless otherwise indicated)								
National income								
GDP at current prices	9.2	8.3	8.0	8.2	9.1	9.9	9.2	10.2
GDP at constant prices	5.8	5.0	6.0	5.6	6.5	6.8	6.5	7.0
GDP deflator	3.3	3.1	2.0	2.5	2.5	3.0	2.5	3.0
Consumer price index (average)	4.2	4.0	2.4	2.5	2.4	3.0	2.5	3.0
Consumer price index (end of period)	9.8	2.3	1.2	2.5	2.5	3.0	2.5	3.0
Central government finance								
Revenue	13.3	5.5	13.2	8.8	8.4	9.9	9.4	10.5
Expenditure and net lending	25.0	9.5	8.5	14.8	6.3	15.5	8.3	4.4
Money and credit								
Net domestic assets 1/	10.5	-10.9	4.6	5.2	...	...	...	...
Domestic credit 1/	9.4	-9.2	7.6	5.2	...	...	...	...
Net claims on central government 1/	0.3	-9.1	2.3	-0.3	...	...	...	...
Credit to the nongovernment sector	25.5	-0.3	16.1	14.0	...	...	...	...
Broad money	21.2	12.7	-3.8	8.2	...	...	...	...
Velocity (GDP relative to average M2)	3.3	3.1	3.2	3.4	...	...	...	...
External sector (in terms of CFA francs)								
Exports, f.o.b.	-3.0	15.3	-3.0	12.0	10.5	10.5	14.2	14.2
Imports, f.o.b.	8.1	8.0	0.2	7.6	5.1	14.6	7.2	3.9
Export volume	-11.0	-2.8	20.1	-11.0	10.5	10.5	8.2	8.2
Import volume	2.0	5.0	5.0	6.0	6.5	15.8	6.5	3.3
Terms of trade	2.9	15.3	-15.5	24.0	1.2	1.2	4.9	4.8
Nominal effective exchange rate (- deprec.)	-6.1	1.3	4.4	...	...	...	...	...
Real effective exchange rate (- deprec.)	-4.2	3.2	4.8	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)								
Basic ratios								
Gross investment	18.9	19.2	17.8	18.9	19.7	21.4	19.6	20.4
Government investment	7.6	7.8	6.4	7.9	8.7	10.4	8.6	9.4
Private sector investment	11.3	11.4	11.4	11.0	11.0	11.0	11.0	11.0
Gross domestic saving	6.0	6.5	6.0	7.6	9.2	9.2	9.9	9.7
Government saving	4.9	4.4	3.7	4.0	5.1	5.3	5.2	5.5
Nongovernment saving	1.1	2.1	2.3	3.5	4.1	3.9	4.7	4.2
Gross national saving	10.9	12.5	9.8	11.4	12.7	12.6	13.2	13.0
Central government finance								
Revenue	16.6	16.2	16.9	17.0	16.9	17.0	17.0	17.0
Expenditure and net lending	20.1	20.3	20.4	21.6	21.1	22.7	20.9	21.6
Primary balance 2/	-2.6	-3.3	-2.6	-3.8	-3.5	-5.0	-3.4	-3.9
Overall fiscal deficit (payment order basis) 3/	-3.5	-4.2	-3.5	-4.6	-4.2	-5.7	-4.0	-4.5
Overall fiscal deficit (cash basis) 3/	-5.5	-4.1	-4.6	-4.7	-4.2	-5.7	-4.0	-4.5
Debt service (after debt relief)	14.4	9.2	8.0	7.0	5.3	5.6	5.3	5.6
External sector								
Current account balance (- deficit) 4/	-8.0	-6.7	-8.0	-7.5	-7.0	-8.8	-6.4	-7.5
Overall balance of payments (- deficit)	3.2	5.4	-3.8	-0.2	0.1	-1.7	0.7	-0.5
Debt-service ratio (before debt relief) 5/	18.1	15.7	16.1	15.5	12.8	13.2	11.5	12.0
Debt-service ratio (after debt relief) 5/	15.7	9.8	9.5	8.2	6.2	6.6	6.1	6.6
Net present value of debt-to-exports ratio (after debt relief) 6/	203.9	230.2	239.4	160.6	150.8	151.6	136.3	138.4
Debt-to-GDP ratio (after debt relief)	58.3	58.5	50.3	38.6	37.5	38.5	35.9	37.5
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,033.5	2,218.0	2,235.6	2,421.8	2,462.8
CFA francs per U.S. dollar (period average)	712.0	728.8	694.8	...	...	...	...	...
Population (midyear, in millions)	6.3	6.5	6.7	6.8	7.0	7.0	7.2	7.2

Sources: Beninese authorities; and staff estimates and projections.

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

2/ Total revenue minus all expenditure, excluding interest.

3/ Before all official grants.

4/ Including current official grants but excluding project grants.

5/ In percent of current-year exports of goods and nonfactor services.

6/ 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, 2000-05

(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003 Prog.	2004		2005	
					PRSP		PRSP	
					Scen. 1	Scen. 2	Scen. 1	Scen. 2
Resource gap (1)	12.9	12.7	11.8	11.4	10.5	12.2	9.7	10.7
Exports of goods and nonfactor services	15.2	15.2	14.3	14.5	14.5	14.4	14.7	14.5
Imports of goods and nonfactor services	28.1	27.9	26.1	25.9	24.9	26.6	24.4	25.2
Total gross investment (2)	18.9	19.2	17.8	18.9	19.7	21.4	19.6	20.4
Central government investment (A)	7.6	7.8	6.4	7.9	8.7	10.4	8.6	9.4
Private sector investment (B)	11.3	11.4	11.4	11.0	11.0	11.0	11.0	11.0
Domestic saving (3) = (2) - (1)	6.0	6.5	6.0	7.6	9.2	9.2	9.9	9.7
National saving (6) = (3) + (4) + (5)	10.9	12.5	9.8	11.4	12.7	12.6	13.2	13.0
Net factor income (4)	-0.5	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7	-0.8
Unrequited transfers (5)	5.5	6.9	4.7	4.7	4.3	4.2	4.0	4.0
Government national saving (7)	5.9	7.1	5.0	5.4	6.3	6.4	6.4	6.6
Budget deficit	-3.5	-4.2	-3.5	-4.6	-4.2	-5.7	-4.0	-4.5
Government investment	7.6	7.8	6.4	7.9	8.7	10.4	8.6	9.4
Public transfers (current)	1.8	3.5	2.1	2.1	1.8	1.8	1.7	1.7
Government domestic saving (8) = (7) - (9) - (10)	4.9	4.4	3.7	4.0	5.1	5.3	5.2	5.5
Public transfers (current) (9)	1.8	3.5	2.1	2.1	1.8	1.8	1.7	1.7
Net factor income (10)	-0.8	-0.8	-0.8	-0.7	-0.6	-0.7	-0.6	-0.6
Nongovernment national saving (11) = (6) - (7)	5.0	5.3	4.8	6.0	6.4	6.1	6.8	6.3
Nongovernment domestic saving (12) = (3) - (8)	1.1	2.1	2.3	3.5	4.1	3.9	4.7	4.2
Saving-investment balance	-8.0	-6.7	-8.0	-7.5	-7.0	-8.8	-6.4	-7.5
Nongov. sector saving-investment balance (11) - (B)	-6.3	-6.1	-6.6	-5.0	-4.6	-4.9	-4.2	-4.7
Government saving-investment balance (7) - (A)	-1.8	-0.6	-1.4	-2.5	-2.4	-3.9	-2.2	-2.8
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,033.5	2,218.0	2,235.6	2,421.8	2,462.8
Nominal GNP (in billions of CFA francs)	1,596.7	1,723.0	1,861.0	2,015.6	2,200.9	2,217.3	2,404.7	2,443.9

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

Table 5. Benin: Consolidated Government Operations, 2000-05

	2000	2001	2002	2003		Prog.	2004		2005			
				March			Prog.	PRSP		PRSP		
				Prog.	Est.			Scen. 1	Scen. 2	Scen. 1	Scen. 2	
(in billions of CFA francs)												
Total revenue	266.2	281.0	318.2	80.2	73.3	162.9	160.2	346.0	375.1	380.1	410.5	419.9
Tax revenue	234.1	247.1	282.5	75.2	66.7	151.6	145.0	312.4	335.5	340.4	367.1	375.8
Tax on international trade 1/	126.7	133.2	145.9	42.1	31.2	83.2	70.7	170.3	181.2	185.3	198.3	204.8
Direct and indirect taxes	107.4	113.9	136.6	33.1	35.5	68.4	74.3	142.1	154.3	155.2	168.8	171.0
Nontax revenue	32.1	33.9	35.7	5.0	6.6	11.3	15.2	33.6	39.6	39.6	43.4	44.1
Total expenditure	322.5	353.2	383.2	95.9	96.8	206.7	196.0	440.0	467.6	508.4	505.9	530.9
Of which: primary expenditure 2/	220.7	257.8	298.3	72.8	75.2	155.3	151.6	326.5	342.0	396.8	371.8	419.2
Wages	74.8	80.7	90.1	22.9	24.5	49.4	51.6	96.7	101.2	101.2	107.3	107.3
Pensions and scholarships	19.3	20.5	21.5	6.2	5.4	12.5	12.1	24.4	24.7	24.7	24.7	24.7
Current transfers	26.8	41.5	73.7	13.8	21.6	25.8	36.4	60.9	61.0	61.0	66.2	66.2
Of which: subsidy to the cotton sector	0.0	0.0	18.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenditure	64.7	59.6	58.4	17.9	17.3	35.8	29.7	79.4	74.7	74.7	85.3	85.8
Investment	122.5	135.3	120.7	31.3	25.0	75.1	61.1	161.4	192.4	232.1	208.2	232.1
Budgetary contribution	35.0	55.4	54.5	12.0	6.4	31.8	21.8	65.1	80.4	135.2	88.4	135.2
Financed from abroad	87.4	79.8	66.2	19.3	18.6	43.3	39.3	96.3	112.0	96.9	119.8	96.9
Net lending (minus = reimbursement)	0.3	0.4	3.2	0.0	0.8	0.0	-1.1	0.0	-0.9	-0.9	0.0	0.0
Primary balance (narrow definition) 3/	45.5	23.2	19.9	7.5	-1.9	7.6	8.6	19.5	33.1	-16.7	38.6	0.7
Primary balance	-42.2	-57.0	-49.5	-11.8	-21.3	-35.7	-29.6	-76.8	-78.1	-112.7	-81.2	-96.2
Interest	14.1	15.2	15.5	3.8	2.2	8.1	6.2	17.2	14.4	15.5	14.2	14.8
Internal debt	1.6	1.8	1.2	0.5	0.0	1.2	0.7	2.6	0.8	0.8	0.7	0.7
External debt	12.4	13.5	14.3	3.3	2.2	6.9	5.5	14.6	13.6	14.7	13.5	14.1
Overall balance (payment order basis)	-56.3	-72.3	-65.1	-15.6	-23.5	-43.8	-35.8	-94.0	-92.5	-128.3	-95.4	-111.0
Change in arrears	-30.6	-6.7	-6.7	-0.3	-0.1	-0.6	-1.6	-1.2	0.0	0.0	0.0	0.0
External debt (principal and interest payments)	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt 4/	-15.8	-6.7	-6.7	-0.3	-0.1	-0.6	-1.6	-1.2	0.0	0.0	0.0	0.0
Float	-0.6	8.4	-13.9	0.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-87.5	-70.6	-85.6	-15.9	-27.5	-44.4	-37.4	-95.2	-92.5	-128.3	-95.4	-111.0
Financing	87.5	70.6	85.6	15.9	27.5	38.8	37.4	76.8	71.3	56.2	76.3	53.4
Domestic financing	13.9	-49.0	11.4	-8.4	9.6	-9.1	-9.9	-13.3	-20.3	-20.3	-21.1	-21.1
Bank financing	1.2	-47.8	13.7	-5.7	10.4	-3.8	-7.5	-1.8	-12.8	-12.8	-15.1	-15.1
Net use of Fund resources	-2.5	-3.0	-6.8	-3.0	-3.3	-0.8	-1.4	-4.8	-6.0	-6.0	-4.9	-4.9
Disbursements	6.3	7.5	3.6	0.0	0.0	3.6	3.3	5.6	1.1	1.1	0.0	0.0
Repayments	-8.9	-10.5	-10.4	-3.0	-3.3	-4.4	-4.8	-10.4	-7.1	-7.1	-4.9	-4.9
Other	3.8	-44.7	20.4	-2.7	13.7	-3.0	-6.1	3.0	-6.9	-6.9	-10.2	-10.2
Nonbank financing	12.6	-1.3	-2.3	-2.7	-0.7	-5.2	-2.4	-11.5	-7.5	-7.5	-6.0	-6.0
Privatization	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	1.4	-1.3	-1.7	-2.5	0.0	-5.1	0.0	-10.0	-6.0	-6.0	-6.0	-6.0
Other	10.3	0.0	-0.6	-0.1	-0.7	-0.1	-2.4	-1.5	-1.5	-1.5	0.0	0.0
External financing	73.7	119.6	74.2	24.4	17.8	47.9	47.3	90.1	91.6	76.5	97.4	74.5
Project financing	74.4	79.8	71.5	19.3	18.6	43.4	42.7	96.3	112.0	96.9	119.8	96.9
Grants	25.3	24.5	16.4	9.3	9.3	21.0	21.0	46.7	54.4	54.4	59.8	59.8
Loans	49.1	55.3	55.1	9.9	9.3	22.3	21.7	49.6	57.6	42.5	60.0	37.1
Amortization due	-22.9	-17.5	-18.8	-4.5	-3.9	-9.8	-8.4	-20.7	-20.4	-20.4	-22.4	-22.4
Program aid	1.7	41.6	3.7	6.6	0.0	11.3	6.3	11.3	0.0	0.0	0.0	0.0
Grants	1.7	21.5	3.7	0.0	0.0	4.7	0.0	4.7	0.0	0.0	0.0	0.0
Loans	0.0	20.1	0.0	6.6	0.0	6.6	6.3	6.6	0.0	0.0	0.0	0.0
Debt relief obtained 5/	20.5	15.7	17.8	3.0	3.2	3.0	6.7	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	5.6	0.0	21.6	21.2	72.1	19.1	57.6
Possible HIPC assistance	0.0	0.0	0.0	0.0	0.0	5.6	0.0	21.6	21.2	21.2	19.1	19.1
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.9	0.0	38.5
(In percent of GDP, unless otherwise indicated)												
Memorandum items:												
Total revenue and grants	18.3	18.8	18.0					19.5	19.4	19.4	19.5	19.4
Grants	1.7	2.6	1.1					2.5	2.5	2.4	2.5	2.4
Total revenue	16.6	16.2	16.9					17.0	17.0	17.0	17.0	17.0
Total expenditure	20.1	20.3	20.4					21.6	21.1	22.7	20.9	21.5
Of which:												
Wages	4.7	4.6	4.8					4.8	4.6	4.5	4.4	4.3
Public investment	7.6	7.8	6.4					7.9	8.7	10.4	8.6	9.4
Social expenditure 6/	4.8	6.2	5.1					6.2	...	...	...	...
Overall balance (payment order basis, excl. grants)	-3.5	-4.2	-3.5					-4.6	-4.2	-5.7	-4.0	-4.5
Excluding HIPC-financed expenditure	-3.3	-3.2	-2.5					-3.7	-3.3	-4.9	-3.2	-3.8
Overall balance (payment order basis, incl. grants)	-1.8	-1.5	-2.4					-2.1	-1.7	-3.3	-1.5	-2.1
Primary balance (narrow definition)	2.8	1.3	1.1					1.0	1.5	-0.7	1.6	0.0
Excluding HIPC-financed expenditure	3.1	2.3	2.0					1.9	2.4	0.1	2.3	0.7
Primary balance	-2.6	-3.3	-2.6					-3.8	-3.5	-5.0	-3.4	-3.9
GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5					2,033.5	2,212.5	2,240.6	2,415.8	2,469.4

Sources: Beninese authorities; and staff estimates and projections.

1/ Including value-added taxes on imports.

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

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

4/ In 2003, a provision of CFAP 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 11). The government is broadening the classification to cover all poverty-related expenditures.

Table 6. Benin: Monetary Survey, 2000-03

	2000	2001	2002	2003			
				March Est.	June	Sep.	Dec.
				Projections			
	(In billions of CFA francs)						
Net foreign assets	352.7	476.8	426.7	373.5	431.7	439.6	444.2
Central Bank of West African States (BCEAO)	261.5	371.2	318.1	280.4	323.1	331.0	335.6
Banks	91.2	105.6	108.6	93.1	108.6	108.6	108.6
Net domestic assets	172.9	115.7	143.1	174.8	158.3	152.7	172.6
Domestic credit	181.7	133.4	178.2	201.0	193.4	187.8	207.7
Net claims on central government	-12.3	-60.1	-46.5	-36.2	-53.9	-44.9	-48.3
Credit to the nongovernment sector	194.0	193.5	224.6	236.9	247.3	232.7	256.0
Other items (net)	-8.8	-17.7	-35.1	-26.2	-35.1	-35.1	-35.1
Broad money (M2)	525.6	592.5	569.8	548.3	590.0	592.3	616.8
Currency	211.2	223.8	170.9	167.4	181.4	175.4	192.6
Bank deposits	308.3	360.1	391.9	373.4	408.6	416.9	424.2
Deposits with CCP 1/	6.1	8.6	7.0	7.5	7.2	9.1	7.6
	(In percentage of beginning-of-period broad money, unless otherwise indicated)						
Net foreign assets	10.7	23.6	-8.5	-9.3	3.4	1.7	3.1
Net domestic assets	10.5	-10.9	4.6	5.6	2.9	3.1	5.2
Domestic credit	9.4	-9.2	7.6	4.0	1.4	1.6	5.2
Net claims on government	0.3	-9.1	2.3	1.8	-0.5	1.4	-0.3
Credit to nongovernment sector	9.1	-0.1	5.2	2.2	1.9	0.3	5.5
Broad money (percentage change over beginning of period)	21.2	12.7	-3.8	-3.8	6.3	4.8	8.2
Velocity of broad money (GDP relative to average M2)	3.3	3.1	3.2	...	...	...	3.4
Credit to the nongovernment sector (annual change in percent)	25.5	-0.3	16.1	29.6	4.5	11.9	14.0
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	...	...	...	2,033.5

Sources: BCEAO; and staff estimates and projections.

1/ CCP = Comptes Chèques Postaux.

Table 7. Benin: Balance of Payments, 2000-05

	2000	2001	2002	2003	2004		2005	
					Scen. 1	Scen. 2	Scen. 1	Scen. 2
(In billions of CFA francs)								
Trade balance	-181.9	-186.9	-192.2	-200.2	-201.6	-236.3	-203.3	-226.7
Exports, f.o.b.	132.9	153.2	148.6	166.4	183.8	183.8	209.8	209.8
Cotton and textiles	107.3	115.9	105.7	115.0	121.1	121.1	138.9	138.9
Other	25.6	37.3	42.9	51.4	62.7	62.7	70.9	70.9
Imports, f.o.b.	-314.8	-340.1	-340.8	-366.6	-385.4	-420.1	-413.1	-436.5
Of which								
Petroleum products	-46.8	-40.1	-41.9	-42.1	-39.0	-39.1	-39.1	-39.4
Services (net)	-25.8	-34.1	-29.7	-30.8	-30.6	-36.7	-32.3	-36.5
Credit	110.9	110.8	119.8	128.4	137.0	137.1	146.1	146.5
Debit	-136.6	-144.9	-149.5	-159.2	-167.5	-173.8	-178.4	-182.9
Income (net)	-8.7	-15.6	-17.5	-17.8	-17.0	-18.4	-17.1	-18.9
Of which								
Interest due on government debt	-12.4	-13.5	-14.3	-14.6	-13.6	-14.9	-13.5	-15.3
Current transfers (net)	87.6	120.2	88.5	96.2	94.6	94.7	97.9	98.2
Unrequited private transfers	59.5	59.1	49.6	53.7	54.6	54.6	55.5	55.5
Public current transfers	28.1	61.1	38.9	42.5	40.0	40.1	42.4	42.6
Of which								
Program grants	1.7	21.5	3.7	4.7	0.0	0.0	0.0	0.0
Current account	-128.8	-116.4	-150.8	-152.6	-154.5	-196.6	-154.7	-183.9
Capital account	32.3	31.8	23.8	54.3	62.3	62.3	68.0	68.0
Official project grants	32.3	31.8	23.8	54.3	62.3	62.3	68.0	68.0
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	148.4	178.7	55.9	94.2	95.4	95.4	103.0	102.9
Medium- and long-term public capital	29.5	61.3	39.9	39.1	40.9	40.9	41.4	41.4
Disbursements	52.4	78.8	58.6	59.8	61.3	61.3	63.8	63.8
Project loans	52.4	58.7	58.6	53.2	61.3	61.3	63.8	63.8
Program loans	0.0	20.1	0.0	6.6	0.0	0.0	0.0	0.0
Amortization due	-22.9	-17.5	-18.8	-20.7	-20.4	-20.4	-22.4	-22.4
Medium- and long-term private capital	53.2	26.0	28.5	48.7	39.8	39.8	43.5	43.5
Deposit money banks	11.3	-14.4	-3.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	-1.6	43.7	19.6	6.4	14.6	14.6	18.0	18.0
Errors and omissions	56.0	62.0	-29.1	0.0	0.0	0.0	0.0	0.0
Overall balance	52.0	94.0	-71.1	-4.1	3.1	-38.9	16.2	-13.0
Financing	-52.0	-94.0	71.1	-14.3	-24.3	-33.1	-35.3	-44.6
Change in net foreign assets (- increase)	-57.7	-109.7	53.3	-17.5	-24.3	-33.1	-35.3	-44.6
Of which								
Net use of Fund resources	-2.5	-3.0	-6.8	-5.0	-5.7	-5.7	-4.8	-4.8
Loans	6.3	7.5	3.6	5.4	1.1	1.1	0.0	0.0
Repayments	-8.9	-10.5	-10.4	-10.4	-6.8	-6.8	-4.8	-4.8
Change in external arrears (+ increase)	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 1/	20.5	15.7	17.7	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	21.6	21.2	72.0	19.1	57.6
Possible HIPC assistance	0.0	0.0	0.0	21.6	21.2	21.2	19.1	19.1
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	50.9	0.0	38.5
Memorandum items:	(In percent of GDP)							
Exports	8.3	8.8	7.9	8.2	8.3	8.2	8.7	8.5
Imports	19.6	19.6	18.1	18.0	17.4	18.8	17.1	17.7
Current account, including program grants	-8.0	-6.7	-8.0	-7.5	-7.0	-8.8	-6.4	-7.5
Current account, excluding program grants	-8.1	-7.9	-8.2	-7.7	-7.0	-8.8	-6.4	-7.5
	(Annual changes in percent)							
Volume of exports	-11.0	-2.8	20.1	-11.0	10.5	10.4	8.2	8.2
Of which								
Cotton products	-11.1	-3.2	14.0	-18.7	7.3	7.3	7.8	7.8
Export unit price	9.0	18.6	-19.1	25.9	0.0	0.0	5.5	5.5
Of which								
Ginned cotton	5.5	11.7	-21.6	17.4	7.6	7.6	6.2	6.2
Volume of imports 2/	2.0	5.0	5.0	6.0	6.5	15.8	6.5	3.3
Import unit price	5.9	2.8	-4.5	1.5	-1.2	-1.1	0.6	0.6

Sources: Beninese authorities; and staff estimates and projections.

1/ Includes confirmed enhanced 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.

2/ The high percentage increase in the volume of imports in scenario 2 in 2004 is explained by the assumed high content in imports of the additional public expenditure.

Table 8. Benin: Balance of Payments, 2000-05

(In millions of U.S. dollars)

	2000	2001	2002 Est.	2003 Prog.	2004		2005	
					Scen. 1	Scen. 2	Scen. 1	Scen. 2
Trade balance	-258.0	-256.4	-276.6	-347.0	-355.9	-417.1	-356.5	-397.5
Exports, f.o.b.	188.5	210.2	213.8	288.4	324.5	324.5	368.0	368.0
Cotton and textiles	152.2	159.1	152.1	199.3	213.8	213.8	243.6	243.6
Other	36.3	51.2	61.7	89.1	110.7	110.7	124.3	124.3
Imports, f.o.b.	-446.5	-466.6	-490.5	-635.3	-680.4	-741.6	-724.4	-765.4
Of which								
Petroleum products	-66.4	-55.0	-60.3	-72.9	-68.8	-69.0	-68.6	-69.1
Services (net)	-36.5	-46.8	-42.7	-53.4	-53.9	-64.8	-56.6	-64.0
Credit	157.2	152.0	172.5	222.5	241.8	242.0	256.2	256.8
Debit	-193.8	-198.8	-215.2	-276.0	-295.7	-306.8	-312.8	-320.8
Income (net)	-12.3	-21.4	-25.1	-30.9	-30.0	-32.4	-29.9	-33.1
Of which								
Interest due on government debt	-17.5	-18.5	-20.6	-25.2	-24.0	-26.4	-23.7	-26.9
Current transfers (net)	124.3	164.9	127.4	166.8	167.0	167.2	171.7	172.1
Unrequited private transfers	84.4	81.1	71.4	93.1	96.5	96.5	97.4	97.4
Public current transfers	39.9	83.8	56.0	73.6	70.6	70.8	74.3	74.7
Current account	-182.6	-159.7	-217.1	-264.6	-272.9	-347.2	-271.3	-322.5
Capital account	45.8	43.6	34.3	94.2	110.0	110.0	119.2	119.2
Official project grants	45.8	43.6	34.3	94.2	110.0	110.0	119.2	119.2
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	210.5	245.1	80.5	163.3	168.4	168.4	180.5	180.5
Medium- and long-term public capital	41.8	84.1	57.4	67.8	72.3	72.3	72.6	72.6
Disbursements	74.3	108.1	84.4	103.7	108.3	108.3	111.9	111.9
Project loans	74.3	80.5	84.4	92.2	108.3	108.3	111.9	111.9
Program loans	0.0	27.6	0.0	11.4	0.0	0.0	0.0	0.0
Amortization due	-32.4	-24.0	-27.0	-35.9	-36.0	-36.0	-39.3	-39.3
Medium- and long-term private capital	75.5	35.7	41.0	84.4	70.3	70.3	76.3	76.3
Deposit money banks	16.0	-19.7	-4.3	0.0	0.0	0.0	0.0	0.0
Short-term capital	-2.3	60.0	28.2	11.2	25.8	25.8	31.6	31.5
Errors and omissions	79.5	85.1	-41.8	0.0	0.0	0.0	-0.1	0.0
Overall balance	73.7	129.0	-102.3	-7.0	5.5	-68.8	28.4	-22.9
Financing	-73.7	-129.0	102.3	-24.8	-42.9	-58.4	-61.9	-78.2
Change in net foreign assets (- increase)	-81.8	-150.5	76.7	-30.3	-42.9	-58.4	-61.9	-78.2
Of which								
Net use of Fund resources	-3.6	-4.2	-9.7	-8.6	-10.1	-10.1	-8.4	-8.4
Loans	9.0	10.2	5.2	9.4	1.9	1.9	0.0	0.0
Repayments	-12.6	-14.4	-15.0	-18.0	-12.0	-12.0	-8.4	-8.4
Change in external arrears (+ increase)	-21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 1/	29.0	21.5	25.6	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	32.9	37.4	127.2	33.5	101.1
Possible HIPC assistance	0.0	0.0	0.0	32.9	37.4	37.4	33.5	33.5
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	89.8	0.0	67.6

Sources: Beninese authorities; and staff estimates and projections.

1/ Includes confirmed enhanced 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.

Table 9. Benin: External Debt and Scheduled Debt Service, 2000-05

(In billions of CFA francs)

	2000	2001	2002	2003 Proj.	2004		2005	
					Scen. 1	Scen. 2	Scen. 1	Scen. 2
Total debt service due 1/	44.1	41.5	43.3	45.7	41.1	42.4	40.8	42.7
Interest	12.4	13.5	14.3	14.6	13.6	14.9	13.5	15.3
Principal	31.7	28.0	29.0	31.1	27.5	27.5	27.3	27.3
On disbursed debt at end-2001	44.1	41.5	42.5	44.3	39.2	39.2	38.4	38.4
Multilaterals (excluding IMF)	21.0	23.0	24.2	25.6	23.1	23.1	23.4	23.4
IMF	9.1	10.8	10.5	10.6	7.2	7.2	5.0	5.0
Paris Club	10.8	6.2	6.3	6.7	7.1	7.1	7.3	7.3
Other bilaterals	3.1	1.4	1.5	1.4	1.8	1.8	2.6	2.6
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	12.4	13.5	13.5	13.2	11.7	11.7	11.1	11.1
Multilaterals (excluding IMF)	6.6	7.3	7.8	8.0	6.6	6.6	6.2	6.2
IMF	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Paris Club	5.0	5.3	4.8	4.5	4.3	4.3	4.2	4.2
Other bilaterals	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	31.7	28.0	29.0	31.1	27.5	27.5	27.3	27.3
Multilaterals (excluding IMF)	14.4	15.7	16.5	17.7	16.5	16.5	17.2	17.2
IMF	8.9	10.5	10.2	10.4	7.1	7.1	4.9	4.9
Paris Club	5.8	0.9	1.4	2.2	2.7	2.7	3.1	3.1
Other bilaterals	2.6	0.8	0.9	0.8	1.2	1.2	2.1	2.1
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service on new disbursements	0.0	0.0	0.8	1.3	1.9	3.2	2.4	4.2
Interest	0.0	0.0	0.8	1.3	1.9	3.2	2.4	4.2
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt relief 2/	20.5	15.7	17.8	21.6	21.2	21.2	19.1	19.1
Interest	6.8	5.2	7.7	5.5	6.8	6.8	5.9	5.9
Principal	13.7	10.5	10.0	16.0	14.4	14.4	13.2	13.2
Repayment of arrears	14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service after debt relief	38.4	25.8	25.6	24.1	19.9	21.2	21.7	23.6
Interest	10.5	8.2	6.6	9.0	6.8	8.2	7.6	9.4
Principal	27.9	17.6	19.0	15.1	13.1	13.1	14.1	14.1
Debt outstanding, before traditional relief	936.7	1,017.9	994.5	966.9	996.6	1,025.9	1,018.4	1,073.6
Debt outstanding, after debt relief beyond enhanced HIPC	936.7	1,017.3	944.5	785.0	830.8	860.1	868.4	923.6
Net present value (NPV) of debt before traditional relief	541.7	624.9	607.6	512.5	510.2	524.3	523.9	536.9
NPV of debt after debt relief beyond enhanced HIPC	541.7	611.9	606.8	368.9	383.1	395.7	406.9	418.1

Sources: Beninese authorities; and staff estimates and projections.

1/ Before debt relief.

2/ Includes debt relief beyond enhanced HIPC Initiative.

Table 10. Benin: Indicators of Fund Credit, 1995-2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
									Proj.		
Outstanding Fund credit 1/											
In millions of SDRs	56.6	68.9	70.4	66.5	67.2	64.4	61.1	53.9	49.2	42.0	36.1
In billions of CFA francs	42.9	51.2	56.5	53.2	56.4	59.9	56.4	48.5	39.7	33.5	28.8
In percent of quota 2/	91.4	111.4	113.7	107.4	108.5	104.1	98.8	87.0	79.5	67.9	58.2
In percent of GDP	4.3	4.5	4.5	3.9	3.8	3.7	3.2	2.6	2.0	1.5	1.2
In percent of exports of goods and services	22.0	23.6	27.9	22.6	23.8	24.6	21.4	18.1	13.5	10.4	8.1
Debt service to the Fund 2/											
In millions of SDRs	1.5	1.7	3.7	4.6	7.2	10.3	12.1	11.8	11.9	8.9	6.3
In billions of CFA francs	1.1	1.3	3.0	3.7	5.4	9.5	11.2	10.6	9.6	7.8	5.0
In percent of quota 3/	2.4	2.8	6.0	7.4	11.7	16.6	19.6	19.1	19.1	14.4	10.2
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	3.2	2.4	1.4
In percent of debt service due	2.5	3.6	7.2	10.5	13.3	21.6	26.9	24.5	20.9	19.0	12.3

Sources: IMF, Finance 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 Initiative debt relief.

3/ 1999 quota.

Table 11. Benin: Public Expenditure for Health and Education, 2001-03

	2001			2002						2003			
	Budget 1/	Execution		Budget	June		December		Budget	March		June	
		Actual	Rate of Execution 2/		Actual	Rate of execution 2/	Actual	Rate of execution 2/		Actual	Rate of execution 2/	Actual	Rate of execution 2/
(In billions of CFA francs, unless otherwise specified)													
Health	40.8	36.2	88.8	36.4	10.3	28.2	27.4	75.2	39.5	4.5	11.5	15.5	39.2
Current outlays	23.5	19.1	81.3	19.7	5.3	26.8	14.2	72.2	23.2	2.7	11.6	11.3	48.7
Personnel	6.8	5.4	79.1	6.7	2.8	41.8	5.9	88.3	7.4	1.5	19.5	2.9	39.5
Nonpersonnel	16.7	13.7	82.2	13.0	2.5	19.0	8.3	63.8	15.8	1.2	7.9	8.4	53.0
Investment program	17.3	17.1	99.0	16.7	5.0	29.9	13.2	78.8	16.2	1.8	11.3	4.2	25.7
Domestically financed	7.3	6.3	87.2	8.7	2.1	24.1	7.5	85.7	8.8	0.7	7.8	1.5	16.9
Financed from abroad	10.0	10.8	107.5	8.0	2.9	36.2	5.7	71.3	7.4	1.1	15.5	2.7	36.2
Education	74.2	71.1	95.8	80.5	26.4	32.8	68.8	85.4	86.9	12.3	14.2	33.7	38.8
Current outlays	56.9	53.2	93.5	55.2	23.2	42.0	55.5	100.5	61.7	11.2	18.2	29.3	47.5
Personnel	33.5	34.4	102.8	33.8	17.5	51.7	38.4	113.5	37.1	9.1	24.5	20.1	54.1
Nonpersonnel	23.4	18.8	80.2	21.4	5.7	26.7	17.1	79.9	24.6	2.1	8.6	9.2	37.5
Investment program	17.3	17.9	103.4	25.3	3.2	12.6	13.3	52.5	25.3	1.1	4.4	4.4	17.5
Domestically financed	8.1	10.4	128.0	13.4	1.1	8.4	8.5	63.6	14.6	0.4	2.5	2.6	17.6
Financed from abroad	9.2	7.5	81.8	11.9	2.1	17.4	4.8	40.1	10.6	0.7	7.1	1.8	17.4
(In percent of GDP)													
Total expenditure 3/	6.6	6.2	...	5.8	...	...	5.1	...	6.2	...	...	...	...
Current outlays	4.6	4.2	...	3.7	...	...	3.7	...	4.2	...	...	...	...
Personnel	2.3	2.3	...	2.0	...	...	2.4	...	2.2	...	...	...	...
Nonpersonnel	2.3	1.9	...	1.7	...	...	1.4	...	2.0	...	...	...	...
Investment program	2.0	2.0	...	2.1	...	...	1.4	...	2.0	...	...	...	...
Domestically financed	0.9	1.0	...	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 12. Benin: Poverty-Reducing Expenditures, 2003 1/
(In billions of CFA francs, unless otherwise indicated)

	Annual Budgetary Allocations	2003		End-June	
		End-March		Est.	Exec. rate 2/
		Est.	Exec. rate 2/		
Primary education	34.5	6.3	18.3	14.0	40.7
Personnel	23.2	6.0	25.8	11.3	48.6
Goods and services	4.4	0.1	1.5	0.5	10.7
Transfers	2.6	0.3	9.9	1.7	63.7
Domestically financed investment	4.3	0.0	0.3	0.6	14.3
Health	39.5	3.4	8.7	12.8	32.4
<i>Of which</i>					
Expansion of basic health services	13.8	0.6	4.7	3.2	23.0
Improvement of health services	9.1	1.0	11.4	4.2	45.8
Priority diseases	2.2	0.3	11.9	0.4	19.5
Reproductive health services	1.9	0.0	0.4	0.0	1.9
Administration of the sector	12.5	1.2	9.4	4.8	38.4
Agriculture	20.4	1.6	7.9	3.1	15.3
Food security	11.9	1.1	9.5	1.9	15.8
Infrastructure	2.9	0.1	3.8	0.3	10.3
Agricultural product markets	1.6	0.2	11.0	0.4	23.0
Administration of the sector	4.0	0.2	5.3	0.6	14.4
Access to safe water	8.1	0.2	2.9	0.5	6.4
Environment	2.8	0.2	7.6	0.3	10.0
Support for urban management	17.3	0.3	1.8	1.8	10.6
Justice	3.9	0.3	7.4	0.9	23.1
Total poverty-reducing expenditure	126.5	12.4	9.8	33.5	26.5
Total primary expenditure 1/	326.5	75.2	23.0	154.6	47.4
Share of poverty-reducing expenditure in primary expenditure (in percent)	38.7	16.5	...	21.7	...

Sources: Beninese authorities.

1/ Excludes foreign-financed projects.

2/ Estimates in percentage of annual budgetary allocations.

Table 13. 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 (millions)	612.4	3.0	4.0	5.5	6.5
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 (millions)	320.1	1.6	2.0	2.7	3.1
(Percent of school-age population)					
Education					
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	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 14. Benin: Performance Criteria and Financial Benchmarks Under the 2002 Program

(In billions of CFA francs)

	End-June 1/ Target	End-June 1/ Actual	End-Sep. 2/ Target	End-Sep. 2/ Actual	End-Dec. 1/ Target	End-Dec. 1/ Actual
Quantitative financial benchmarks						
Net bank credit to the government 2/ Adjusted 2/ 3/	-63.1	...	-52.1	...	-51.3	...
	-62.7	-82.2	-48.3	-74.0	-36.8	-46.5
Nonaccumulation of new external payments arrears by the central government (cumulative since end-December 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	90.1
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	318.2
Primary government expenditure 6/	121.0	112.2	208.0	190.6	297.8	298.2
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 enhance 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 in 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: Structural Benchmarks Under the 2002 Program

Structural Benchmarks	Timetable	Status of Implementation
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 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 Initiative Funds, 2000-03

(In millions of CFA francs)

Policy Areas	2000	2001		2002		2003		
		Budget	Actual	Budget	Actual	Budget	March Actual	June Actual
Health	550	11,811	8,796	9,568	9,568	10,708	873	7,881
Recruit personnel to fill vacant positions at primary health care facilities	550	2,100	2,095	1,550	1,550	2,188	0	2,188
Implement AIDS program	...	2,200	872	770	924	1,120	0	250
Implement antimalaria program	...	1,988	1,321	1,350	1,271	685	138	219
Procure medicine for health centers	...	2,246	1,704	1,470	1,466	1,680	26	1,660
Improve access to safe water	...	854	547	1,340	1,288	1,547	126	155
Improve health system	...	1,586	1,420	1,327	1,325	1,627	150	1,597
Increase child immunization	...	837	837	879	879	900	0	900
Improve health assistance	...	...	...	882	865	961	433	912
Education	2,950	7,451	6,667	8,875	7,625	8,237	275	2,704
Recruit teachers to fill vacant positions in rural areas	950	1,956	1,956	2,256	2,124	2,510	0	113
Eliminate school fees in rural areas and compensate schools for loss of revenue	2,000	2,200	2,123	2,704	2,660	2,129	0	1,500
Refurbish classrooms	...	586	293	1,334	398	835	0	0
Refurbish classroom equipment	...	2,559	2,145	734	596	900	0	66
Conduct a study on improving the education system	...	150	150	847	847	762	0	400
Improve school cafeterias	...	...	...	1,000	1,000	1,100	275	625
Rural development (maintenance of feeder roads)		1,098	750	1,371	1,101	621	0	134
Total	3,500	20,360	16,213	19,814	18,293	19,567	1,148	10,719
Total enhanced HIPC Initiative resources received	5,600		15,680		17,794		3,199	6,732

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

Policy Area	Measures	Timing of Measures
Tax administration	Implement the new action plan to improve the performance of the tax and customs administrations	2003
	Implement the necessary measures to boost collection of nontax revenue	2003
Expenditure management 1/	Limit the number of cash advance accounts for current spending to one account per administrative structure or department	End-December 2003
	Integrate external debt service into the computerized budget management system (SIGFIP)	End-September 2003
	Implement the action plan to improve the operation of SIGFIP, with a view to ensuring that all expenditure is channeled through the system	2003
	Complete the audit for expenditure financed with HIPC Initiative resources in 2001	End-September 2003
	Launch a call for bids to audit the cross debts of public enterprises with the government	End-September 2003
	Complete an audit of cross debts of public debts of public enterprises with the government	End-December 2003
	Establish the status of liabilities of public enterprises already liquidated or of being privatized	End-December 2003
Civil service reform 1/	Define a new strategy for the implementation of the civil service reform	End-December 2003
	Complete an actuarial study of the civil service pension fund (FNRB)	End-December 2003
Decentralization	Prepare and adopt an action plan establishing how the management of appropriations for local government, currently centrally managed, will be transferred	End-September 2003
Poverty reduction strategy	Complete a first progress report of the poverty reduction strategy paper (PRSP)	End-September 2003
Cotton sector 1/	Complete the process of selling SONAPRA's ginning mills	End-December 2003
Post and telecommunications 1/	Adopt a decree separating the telecommunications sector from the post office	End-September 2003
	Adopt a decree establishing the regulatory body for the sector	End-September 2003
Port of Cotonou 1/	Complete the feasibility study defining the modalities for involving the private the private sector in the management of the port	End-2003
Financial sector	Sell government's shares in the Continental Bank	End-September 2003

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

TRANSLATED FROM FRENCH

Cotonou, August 25, 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, which describes the progress made during the first half of 2003 in the implementation 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 the remainder of 2003 in order to achieve the objectives of the program for 2003, which was presented in the memorandum of January 29, 2003 and constitutes the first year of implementation of the poverty reduction strategy stated in the PRSP adopted by the government in December 2002. The attached technical memorandum of understanding specifies the definitions of benchmarks and criteria presented in Tables 1 and 2 of attachment I, and the reporting requirements.

2. As indicated in paragraphs 4, 5, and 6 of the memorandum, all the structural benchmarks for end-March 2003 were met. However, fiscal performance weakened during the first quarter of 2003, reflecting shortcomings in customs administration and expenditure overruns relating to the municipal and legislative elections. The government took measures during the second quarter of 2003 to strengthen customs administration and cut nonpriority expenditure, so as to meet the program targets for end-June. In view of the corrective actions taken to address the slippages in performance and meet the objectives of the program for 2003, and the progress achieved during the second quarter of 2003, the government requests waivers for the nonobservance of the performance criteria pertaining to the net bank credit to the government and the deficit of the government at end-March 2003. The government also requests the sixth disbursement under the arrangement, in an amount of SDR 2.69 million, upon completion of the fifth review.

3. The government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose.

Benin will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

4. The government proposes that, in accordance with the PRGF arrangement, the seventh disbursement under the arrangement, in an amount of SDR 1.35 million, be conditioned on the observance of end-September 2003 performance criteria (Attachment I, Table 2) and completion of the sixth review under the arrangement, which is expected by mid-December 2003. The sixth review will assess economic and financial developments during the second half of 2003, the outlook for 2004, and the implementation of the poverty reduction strategy.

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

Sincerely yours,

/s/

GREGOIRE LAOUROU
Minister of Finance and Economy

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

BENIN

Memorandum on Economic and Financial Policies

August 25, 2003

I. INTRODUCTION

1. In the context of the arrangement under the Poverty Reduction and Growth Facility, the government of Benin held consultations with an International Monetary Fund mission in Cotonou on May 7-21, 2003. The discussions covered the fifth review of the medium-term program—in particular, progress made in program implementation during 2002 and the first quarter of 2003, and the outlook and measures planned for the remainder of 2003 and in the medium term within the framework of the government's poverty reduction strategy. The government of Benin reaffirms its commitment to implement all the policies described in the present document, which supplements the memorandum on economic and financial policies of January 29, 2003.

II. PERFORMANCE UNDER THE PROGRAM

2. Benin's economic performance in 2002 remained satisfactory despite the sharp decline in the terms of trade. Real GDP grew by 6.0 percent, mainly as a result of a particularly abundant cotton harvest; inflation was contained at 2.4 percent, despite an increase in public utility rates during the second quarter; the current account deficit, including current official transfers, reached 8.0 percent of GDP because of the marked decline in the price of cotton on the international markets; and the real exchange rate appreciated by some 6.3 percent, reflecting the appreciation of the euro—to which the CFA franc is fixed—against the dollar. The effects of the crisis in Côte d'Ivoire also remained limited.

3. The objectives of the 2003 program reflect the basic macroeconomic framework of the poverty reduction strategy paper (PRSP) adopted in December 2002 and remain the same as those presented in the memorandum on economic and financial policies (MEFP) of January 29, 2003. These objectives are an economic growth rate of close to 5.6 percent, an inflation rate of less than 3 percent, in accordance with the West African Economic and Monetary Union (WAEMU) convergence criterion, and a current account deficit, including current official transfers, of 7.5 percent. To achieve these objectives, the government's monetary and fiscal policy will seek to maintain financial stability. In this context, the overall government deficit (on a payment order basis, excluding grants) is programmed to remain fixed at 4.6 percent of GDP.

4. The first quarter of 2003 was marked by fiscal slippages. Regarding the objectives for end-March, fiscal operations resulted in a gap of about CFAF 7.6 billion in total revenue and

primary expenditure overruns of some CFAF 2.5 billion. The low performance in total revenue stems mostly from lower customs receipts, owing to a less effective customs administration, which is deficient in three areas: (i) controlling customs value, (ii) combating fraud and corruption, and (iii) monitoring overdue obligations after customs clearance. The overruns at the level of primary expenditure were caused mainly by the higher-than-expected cost of municipal and legislative elections, which exceeded budgetary allocations by CFAF 4.5 billion, partly as a result of a higher-than-expected number of runoff elections in early 2003. Furthermore, the wage bill was slightly larger than expected as a result of the front-loaded impact of the civil servant salary adjustment to the grade scale reached in 2002. Consequently, the wage bill target for the whole year will not be affected. Moreover, social spending on health and education was only 60 percent of the program target. Overall performance criteria at end-March for the ceiling on net domestic bank financing to the government and the ceiling on the overall government deficit were not observed. Net bank credit to the government amounted to CFAF -36.1 billion as opposed to an adjusted target of CFAF -44.7 billion. The overall government deficit amounted to CFAF -11.3 billion as opposed to an adjusted target of CFAF -5.8 billion.

5. The three structural benchmarks for end-March 2003 were met. At end-March 2003, the government adopted and started to implement action plans for the Directorate General of Taxes and the Directorate General of Customs, incorporating the recommendations of the IMF technical assistance mission of September 2002. Since March 2003, wages have been paid by using the single-reference database. Finally, an action plan was adopted for the SIGFIP, providing for integrating external debt service and externally financed capital expenditure into the system. In addition, in order to reduce expenditure that does not follow normal procedures of commitment and payment orders, the government closed 317 (of a total of 867) cash advance accounts (*comptes des régisseurs*) in January 2003. However, the considerable increase in emergency spending outside the SIGFIP system, especially election-related expenditure, made it impossible for the SIGFIP to function properly and excluded the possibility of establishing any consistency between budget and treasury operations in a timely manner for purposes of tracking budget execution.

6. During the second quarter, the government implemented a number of measures aimed at improving revenue and containing expenditure in order to meet the program objectives at end-June 2003. In terms of revenue, the government strengthened the Directorate General of Customs from end-March and began to implement the action plan to enhance the performance of the customs administration. These measures covered, in particular, (i) improvement of the system for recording merchandise, (ii) use of the transaction value on all imports, (iii) combating fraud and fiscal flight, including enhancing control of warehouses, monitoring transit to border countries, and combating illegal imports of petroleum products, (iv) provision of human and material resources to the customs administration, (v) reallocation of personnel to critical customs checkpoints, and (vi) reorganization of control services. In terms of expenditure, the government reduced budget allocations by CFAF 10 billion for nonpriority expenditure and accelerated the execution of priority expenditure, especially on health and education, for which the rate of execution increased from 59 percent at end-March to 86 percent at end-June.

7. The fiscal revenue and expenditure measures implemented made it possible to meet the end-June performance indicators. Net bank credit to the government stood at CFAF -53.9 billion, compared with an adjusted target of CFAF -44.1 billion. The overall government deficit reached CFAF -9.7 billion, compared with an adjusted target of CFAF -17.7 billion. The government also observed the performance indicators for end-June 2003 regarding the (i) nonaccumulation of new external payments arrears by the central government, (ii) ceiling on new nonconcessional foreign or guaranteed debt with a maturity of one year or more, and (iii) ceiling on new short-term external borrowing, except for normal import financing.

8. In light of the progress made in meeting the annual program objectives for 2003, after the slippages in the first quarter, the government requests from the Executive Board of the Fund waivers for its noncompliance with the two performance criteria for end-March 2003: (i) the ceiling on net domestic bank financing to the government, and (ii) the ceiling on the government deficit.

9. After three years of strong growth, the money supply declined slightly in 2002. Net domestic assets increased by 4.6 percent in terms of beginning-of-period broad money as a result of the government's use of bank credit and an annual increase in credit to the economy of 16 percent.

10. Regarding the financial health of the banking system, banks' prudential ratios improved overall. By contrast, nonperforming loans increased from 4.3 percent of the bank portfolio at end-2001 to 4.8 percent in March 2003. In respect of problem banks, the financial situation of the Continental Bank improved, thereby allowing its temporary receivership to be ended; however, another establishment under supervision at end-2002 went into temporary receivership in April 2003. A new bank, Société générale de banques du Bénin began operations in January 2003.

11. The divestiture program of public enterprises experienced limited progress. With assistance from the World Bank, an investment bank was hired in May 2003 through competitive bidding to assist the government in privatizing the ginning company (SONAPRA). Concerning the electricity company (SBEE), the authorities established the framework for the reform of the electricity sector and the timetable for the privatization of the SBEE, with assistance from the World Bank in the context of the preparation of a sectoral project. The call for bids for the telecommunications company did not take place by end-June as planned. In November 2002, the government opted for private sector participation in the management of the Autonomous Port of Cotonou, but actual implementation was delayed, owing to opposition by the port labor unions with whom negotiations are being pursued.

12. The plan to restore the financial equilibrium of the SBEE was implemented satisfactorily in 2002. The SBEE produced a quarterly report on the execution of that plan. Action was taken to raise and restructure tariffs, reduce loss rates on the supply network, and strengthen the system of controls.

III. PLANNED MEASURES AND ACTIONS TO ACHIEVE PROGRAM OBJECTIVES FOR 2003

13. In the government's opinion, achieving the objectives of the 2003 program constitutes an important step in the implementation of the PRSP, and it remains determined to continue in the second half of the year to strengthen the implementation of measures and actions needed to achieve these objectives.

A. Government Finance and Fiscal Reforms

14. Meeting the objectives in this area will require reinforcement of the measures implemented to improve the performance of the tax and customs authorities and continuation of the measures intended to contain expenditure by ensuring that it is allocated in accordance with the priorities set in the budget voted by the National Assembly in 2002.

15. To attain the expected revenue level of 17.0 percent of GDP, the government intends to strengthen implementation of action plans to improve the performance of the tax and customs administrations. In customs administration, the focus will be particularly on implementation of the following measures: (i) the application of transaction values to all imports; (ii) the inclusion of foodstuffs as an area covered by the import verification company; (iii) the strengthening of supervision of warehouses and monitoring of transit to border countries; (iv) the collaboration between customs and the tax departments, and between customs and the import verification company; (v) the monitoring of unpaid obligations after customs clearance; and (vi) combating fraud and corruption in customs. In the tax administration, action will be taken primarily to improve the taxpayer database, to follow up on delinquent taxpayers, to improve tax collection, and to strengthen tax audits. An IMF technical assistance mission is planned for October 2003, to assist in monitoring the implementation of these action plans. The government will also continue to implement the necessary measures to boost collection of nontax revenue. To that end, the following measures will be taken: (i) to establish an inventory of dividends due by all companies to the government in order to accelerate their collection, and (ii) to enhance the collection of loans on-lent to public enterprises.

16. Regarding the wage bill, a 5 percent increase was granted at the beginning of the year to bring the wages of all civil servants in line with the grade scale reached in 2002. The wage bill will be kept within the limits set in the budget (CFAF 96.7 billion). Civil service trade unions have requested retroactive pay for promotions received by civil servants before 1987, as well as bonuses and indemnities for teachers. A commission comprising government and trade unions representatives is examining the demands. The government will consult the Fund staff before taking measures in this area.

17. Electricity and telephone use by the central government has sharply increased in the last three years. The government intends to implement measures needed to contain this expenditure in 2003 within the appropriations of CFAF 4.5 billion for electricity and

CFAF 5.5 billion for telephone. As regards telephone use, a measure prohibiting calls to cellular phones has already been taken. Additional measures are being contemplated. Concerning electricity, the government will strengthen ongoing actions aimed at reducing its consumption.

18. The government will continue to implement measures to improve the quality and level of execution of priority expenditure. These measures include, in particular, the following: (i) incentives for autonomous agencies to systematically execute projects; (ii) training for the line ministries in new budget procedures; and (iii) close monitoring of budget execution. The government's policy will seek to control nonpriority spending in order to prevent any overruns of budget appropriations.

19. Regarding fiscal reforms, the government intends to strictly observe budget procedures and limit the level of emergency spending that does not follow normal procedures of commitment and payment authorization. Thus, the number of cash advance accounts will continue to be reduced, with a view to eliminating these accounts in the medium term. In particular, cash advance accounts for capital expenditure will be eliminated during 2003-04, and those for current spending will be restricted, before end-December 2003, to one account per administrative structure or department. The government will also implement an action plan to improve the operation of SIGFIP, with a view to ensuring that all expenditure is channeled through the system. In particular, the external debt service will be integrated by end-September 2003 and foreign-financed investment expenditures before end-February 2004. The government also intends to strengthen the steps taken in recent years with the support of the World Bank in the context of the Public Expenditure Reform Adjustment Credit (PERAC) to improve the transparency and tracking of poverty reduction expenditure. To that end, the government, in collaboration with World Bank and IMF staffs, has drawn up a list of expenditures directly related to poverty reduction, whose execution will be regularly monitored through SIGFIP. The government also completed an audit for expenditure financed with 2000 HIPC resources and began to implement its recommendations. The audit for expenditure financed with HIPC resources in 2001 will be completed by end-September 2003.

20. Regarding cross debts between state enterprises, the government is establishing the situation of outstanding debts for all public enterprises; this exercise will be completed in September 2003. It intends to audit these debts before end-December 2003 and adopt a plan for their settlement by end-February 2004. Bids for the audit will be launched by end-September 2003. Also, to avoid the accumulation of new cross debts, the following measures were taken: (i) strengthening of physical control of the central government's use of services provided by public enterprises; and (ii) verification and settlement of invoices for services provided by public enterprises to the government. Lastly, by end-December 2003, the government will establish the status of liabilities of public enterprises that have already been liquidated or are being privatized.

21. The government plans to build a new port and a new airport. As a first step, it will conduct a study to evaluate the technical, economic, and financial viability of such projects.

As part of the consultation process, the government will relay to Fund and Bank staffs all the relevant information in order to evaluate with them the suitability of these projects and their impact on the macroeconomic framework described in the government's economic and financial program for 2003-05, as well as the fiscal implications of explicit or implicit commitments by the government to these large projects.

22. The government intends to implement the decentralization process after the municipal elections of December 2002. The budget for fiscal year 2003 provides an overall appropriation for local governments of CFAF 3.6 billion. The budget also includes appropriations of CFAF 58 billion for local government spending that will continue to be centrally managed. In order to facilitate the transfer of management of these appropriations, studies on the modalities and cost of transferring this authority to the local governments have been finalized. An action plan establishing how this authority is to be transferred to the local governments and indicating measures and a timetable for their implementation will be prepared and adopted by end-September 2003. The government adopted the budget and accounting framework of the local governments in August 2003. The government will continue to strengthen the fiscal management capacity of the local governments, so that the transfer of managerial authority for appropriations will not weaken government finance management.

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

23. Monetary policy, which is conducted at the regional level by the regional central bank (BCEAO), will aim at achieving the objectives of price stability and an adequate level of foreign exchange reserves. In 2003, the money supply should grow at the same rate as nominal GDP, and net foreign assets of the banking system should increase. The government will continue to implement the recovery plan for the Continental Bank and will sell the state's shares by September 2003, which constitutes a structural benchmark of the program. The government will continue to encourage all credit institutions to observe the current banking regulations and prudential ratios. The government will also support the recovery efforts of the largest microfinance institution in the sector (FECECAM) and intensify supervision of the sector.

C. Other Structural Reforms

24. In the cotton sector, the Centrale de Sécurisation des Paiements et du Recouvrement (Payments Securitization and Collection Agency), which covers ginning mills, input distributors, and producers, continued to be responsible for the marketing and collection of cottonseed, as well as the securitization of payments for agricultural inputs by producers. But the 2002/03 crop year was disrupted by the emergence of a parallel circuit for marketing inputs and collecting cottonseed, that was started up by input distributors who were not selected in the bidding process organized by the producer cooperative CAGIA. These disruptions delayed payments to producers. With the support of the World Bank, operators in the sector intend to assess the functioning of institutions in the sector and input marketing circuits before the next crop season starts. For its part, the government will approve import

exemptions for inputs only for those importers who have been selected in the competitive bidding process, in accordance with the reform implemented in collaboration with the donors. The government will also assist in implementing the recommendations of the study on the impact of past and future reforms in the cotton sector, conducted in conjunction with the World Bank and private operators in the sector.

25. The government intends to complete the public enterprise privatization program and has prepared a new timetable for this program. In the cotton sector, the process of selling SONAPRA's ginning mills will be completed by end-2003, in accordance with the timetable established with the investment bank advising the authorities in the privatization process, the call for bids having been submitted in July 2003. Regarding the electricity and water enterprise (SBEE), in keeping with the timetable drawn up with assistance from the World Bank, the National Water Company was established by decree in June 2003, meanwhile, the call for bids for a management contract of the electricity arm of the SBEE is to be issued in the first half of 2004, and the selection process is to be completed during the second half of 2004. Regarding the privatization of the telecommunications sector, a decree separating the sector from the post office will be adopted in September 2003, the call for bids for a strategic investor will be launched in August 2004, and the selection process will be completed by end-2004. The regulatory body for the sector will be established by decree in September 2003. In respect of the involvement of the private sector in the management of the Autonomous Port of Cotonou, the feasibility study to define the modalities for its implementation will be completed by end-2003. The selection of a private operator will begin in the first half of 2004 and will be completed by end-2004. The finalization of the discussions with the social partners should facilitate the timely implementation of these actions.

26. The government stresses its willingness to implement civil service reform, including a new compensation and merit-based promotion system, and it will define a new strategy to that effect by end-2003. In the meantime, the government will continue the hiring policy adopted at the beginning of 2003, of using employees on fixed-term contracts to replace retiring civil servants. In this connection, a new merit-based statute for contractual employees will be adopted in the first quarter of 2004.

27. Regarding the National Retirement Fund of Benin (FNRB), the actuarial study will be completed by end-December 2003. Based on the results of this study, the government will adopt in 2004 a strategy to eliminate the FNRB's financial deficit in the medium term.

28. With respect to good governance, the implementation of the national strategic plan to combat corruption adopted in 2002 will be continued. Actions have been taken to reinforce the state's control institutions, in particular the Audit Office, the General Finance Inspectorate, internal audit units in the ministries, and the Morality in Public Life Unit. Since the beginning of 2003, the government has regularly published the outcome of all government procurement contracts and will continue to do so. Regarding implementation of the action plan for collecting taxes and dividends due from the distributor of petroleum

products (SONACOP), the actual collection of dividends owed to the state was completed in January 2003, and the remainder of import duties in arrears is being settled on schedule.

29. During this first year of implementation of the poverty reduction strategy, the government undertook a number of projects to (i) improve the diagnosis of poverty, particularly by correcting any methodological deficiencies; (ii) deepen the private sector development strategy; (iii) build capacity for execution of poverty-reducing expenditure; and (iv) improve the mechanism for monitoring and evaluation. The authorities decided to submit regular progress reports on PRSP implementation; the first progress report will be completed by end-September 2003. In addition, the annual update of the PRSP will be completed by end-March 2004.

IV. DEBT SUSTAINABILITY

30. In April 2003, Benin, having attained the completion point under the enhanced HIPC Initiative, reached a debt-reduction agreement with Paris Club creditors within the framework of that Initiative. In terms of net present value, the reduction of the debt by bilateral creditors who are members of the Paris Club amounts to US\$48 million, not including the US\$12 million already obtained during the interim period. Furthermore, most Paris Club creditors have agreed to grant an additional debt reduction. At end-July 2003, Benin had requested all bilateral and multilateral creditors to grant the debt reduction envisaged within the framework of the HIPC Initiative. The authorities will continue their efforts to obtain a debt reduction from all creditors.

31. The government will continue to strengthen debt management to maintain external debt sustainability. In this context, the government established a national debt committee (CNE), chaired by the Minister of Finance and Economy. The CNE is responsible for the drafting, implementation, and monitoring of the national debt policy, the analysis of Benin's debt sustainability and fiscal sustainability, the review of all requests for, and offers of, financing, and the formulation of recommendations to ensure a better match between financing and projects.

V. MONITORING THE PROGRAM AND PERFORMANCE CRITERIA AND BENCHMARKS

32. To ensure effective implementation of the program, the government has carried out as prior actions, the performance indicators for end-June 2003, as listed in the attached Table 1.

33. Program monitoring will be carried out on the basis of the technical memorandum of understanding accompanying this memorandum and the quarterly performance criteria, indicative targets, and structural benchmarks established for the period June 1-December 31, 2003, as well as through a program review. The performance criteria set for end-September 2003 remained unchanged. Observance of these criteria is a condition for drawing the seventh loans under the program. The performance criteria include (i) a ceiling on net domestic bank financing to the government; (ii) a ceiling on the government deficit; (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 borrowings

with a maturity of one year or more; and (v) a ceiling on new short-term foreign borrowing, except for regular import financing. The quarterly ceilings on net domestic bank credit to the government will be adjusted downward (or upward), up to the amount by which program grants and loans, excluding any debt relief, exceeds (or falls short of) program estimates, as indicated in Table 2 attached and in the technical memorandum of understanding. The quarterly ceiling on the government deficit will be adjusted downward by the amount of disbursements of budgetary grants or debt relief in excess of program estimates. The quarterly ceiling on the deficit will also be adjusted downward up to the amount of HIPC Initiative resources received and not spent in accordance with program estimates. The quarterly ceiling on the deficit will be adjusted upward for the amount by which disbursements of budgetary grants or debt relief fall short of program estimates. The five above-mentioned criteria constitute indicative targets for end-December 2003. Quantitative indicative targets also include the wage bill, expenditure on health and education, total revenue, and primary expenditure. The reduction of domestic payments arrears was not set as a performance criterion or quantitative indicator because all domestic arrears have been paid, with the exception of those currently in litigation.

34. The measures that will be used as structural benchmarks for end-September 2003 are (i) the offer for sale of state shares in the Continental Bank; (ii) the call for bids to audit the cross debts of public enterprises with the government; and (iii) the integration of external debt service in the SIGFIP.

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

Measures	Timetable	Status of Implementation
Prior actions		
Reach a level of net bank credit to the government equal at least to CFAF - 48.8 billion, before adjustments provided for in the technical memorandum of understanding	End-June 2003	Met
Reach a level of deficit of the government not higher than CFAF - 13.0 billion, before adjustments provided for in the technical memorandum of understanding	End-June 2003	Met
No accumulation of external public payments arrears	End-June 2003	Met
No new nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the government	End-June 2003	Met
No new short-term external loan with a contractual term of less than one year, except if it is an import-related loan	End-June 2003	Met
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	Met
Ensure use by the Payroll Unit of the single reference database for the payment of wages	End-March 2003	Met
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	Met
Offer for sale the government's shares in the Continental Bank	End-September 2003	
Launch a call for bids to audit the cross debts of public enterprises with the government	End-September 2003	
Integrate external debt service in SIGFIP	End-September 2003	

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

(In millions of CFA francs)

	End-March		End-June		End-September	End-December
	Prog.	Estim.	Prog.	Estim.	Prog.	Prog.
Performance criteria 1/						
Net bank credit to the government 2/	-49.7		-48.8		-43.4	-46.8
Adjusted 3/	-44.7	-36.1	-44.1	-53.9		
Deficit of central government, including grants and debt relief (cumulative, since end-December 2002) 4/ 5/	-7.6		-13.0		-22.1	-25.2
Adjusted 6/	-5.8	-11.3	-17.7	-9.7		
Nonaccumulation of new external payments arrears by the central government (cumulative, since end-December 2002) 7/	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	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)	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets (cumulative, since end-December 2002)						
Wage bill	22.9	24.6	49.4	51.6	76.9	96.7
Health expenditure	8.9	4.5	17.8	15.5	26.7	35.6
Education expenditure	19.6	12.3	39.1	33.7	58.7	78.2
Total government revenue 8/	80.2	73.3	162.8	160.2	253.8	346.0
Primary government expenditure 9/	72.8	75.3	155.2	151.6	242.8	326.5
Memorandum items (cumulative, since end-December 2002):						
Program grants and loans	6.6	0.0	11.3	6.6	11.3	11.3
Target for spending on projects financed by enhanced HIPC Initiative	2.7	1.1	7.7	10.7	11.8	19.4

1/ Performance criteria for end-March and end-September 2003; 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 target for end-March is adjusted upward by CFAF 6.6 billion of undisbursed program loans and downward by CFAF 1.56 billion of unspent HIPC Initiative resources. The target for end-June is adjusted upward by CFAF 4.7 of undisbursed program grants

4/ 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.

5/ The ceiling on the deficit (surplus) of the central government will be reduced (increased) by the amount by which disbursements on nonproject grants or debt-service relief exceed the amount programmed. The ceiling on the deficit (surplus) will also be reduced (increased) by the amount of underspending on projects financed by HIPC Initiative resources. In addition, 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.

6/ The ceiling for end-March is reduced by the amount of CFAF 0.2 billion of debt-service relief that exceeded the amount programmed, and by CFAF 1.56 billion of unspent HIPC resources. The ceiling for end-June is increased by the amount of CFAF 4.7 billions of undisbursed program grants.

7/ 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.

8/ Excluding grants.

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

INTERNATIONAL MONETARY FUND

BENIN

Technical Memorandum of Understanding

(August 25, 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 (www.imf.org), amended by (www.imf.org), 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 -46.5 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 11.3 billion at both end-September and 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 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 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 - 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-September 2003, and an indicative target as at 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 nonproject 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 - 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-September 2003, and an indicative target as at 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 (www.imf.org), amended by (www.imf.org), but also to commitments contracted or guaranteed (including lease-purchase agreements) 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 2003 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 June 30, 2003, 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 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 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 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 253.8 billion 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 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 three measures will serve as structural benchmarks:
- By September 30, 2003, the government will launch a call for bids to audit the cross debts of public enterprises with the government.
 - By September 30, 2003, the government will integrate external debt service in the computerized expenditure management system (SIGFIP).
 - 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 June 30, 2003)

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	0.24	2.13

IV. Outstanding Purchases and Loans:	SDR million	% quota
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction Growth Facility (PRGF) Arrangements	51.83	83.73

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	22.96
ESAF/PRGF	08/28/1996	07/16/2000	27.18	16.31
ESAF	01/25/1993	05/21/1996	44.89	44.89

VI Projected Payments to Fund (with HIPC Assistance)

SDR million; based on existing use of resources and present holdings of SDRs)

	2003	Forthcoming			
		2004	2005	2006	2007
Principal	5.31	8.52	5.98	5.93	5.33
Charges/interest	0.19	0.36	0.31	0.28	0.25
Total	5.50	8.87	6.29	6.21	5.59

Projected Payments to Fund (with Board-approved HIPC Assistance

SDR million; based on existing use of resources and present holdings of SDRs)

	2003	Forthcoming			
		2004	2005	2006	2007
Principal	3.39	5.76	5.06	5.01	4.41
Charges/interest	0.19	0.31	0.29	0.28	0.25
Total	3.59	6.11	5.37	5.29	4.66

VII. Implementation of HIPC Initiative:

Commitment of HIPC assistance	Enhanced <u>Framework</u>
Decision point date	Jul 17, 2000
Assistance committed (net presentation value terms)	End-1998
Total Assistance (US\$ million)	265.00
<i>Of which:</i> Fund assistance (US\$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	March 2003
Delivery of Fund assistance (SDR million)	
Amount disbursed	18.40
Interim assistance	11.04
Completion point	7.36
Additional disbursement of interest income	1.66
Total disbursement	20.06

VIII. Safeguards Assessments:

The Central Bank of the West African States (BCEAO) is the common central bank of eight west African states, which include Benin. An on-site safeguards assessment of the BCEAO completed on July 25, 2001 proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although the 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.** 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 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), 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. As of July 31, 2003, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 813.13

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; 7/01/02), together with a statistical appendix (SM/02/197; 7/01/02), was discussed by the Executive Board, and the 2002 Article IV consultation was concluded, 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).

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 HIPC resources

FAD	Technical assistance	September 11-25, 2002	Helping the authorities strengthen domestic revenue and customs administrations
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XIII. Resident Representative:

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

Benin: Relations with the World Bank Group
(As of July 31, 2003)

Partnership in Benin's development strategy

1. Benin's poverty reduction strategy paper (PRSP), finalized in December 2002, was discussed at 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 helping Benin 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'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.

IMF-World Bank collaboration in specific areas

4. Common objectives and joint support for Benin's PRSP and the 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 Country Assistance Strategy (CAS) has an important effect on the Bank's approach toward conditionality: the Bank is increasingly moving toward an ex post assessment of progress and is modulating 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 in the policy dialogue on macroeconomic issues, particularly fiscal elements of the reform. As described below, there are several specific areas in Benin's reform program in which the Bank and Fund are sharing the lead in supporting the authorities and others in which one or the other institution 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 the divestiture of public enterprises through the Private Sector Development Project and through the now-closed Transport Sector 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 a Energy Services Delivery Project. Successful completion of this privatization is a condition for moving to the second phase of this project. The privatization of SONAPRA's ginning mills is supported by the cotton sector project. The Transportation Sector Project assisted the government in designing a strategy to involve the private sector in the management of the PAC. The Fund is involved in policy dialogue on these operations, 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 supported reform programs in these sectors through investment projects that were closed in the past two years. In line with the CAS discussed at the Bank's Board on July 3, 2003, the Bank is continuing to work closely with the government on enhancing access to and quality of education and health care services through policy dialogue and financial and technical assistance in the context of the forthcoming Poverty Reduction Support Credit (PRSC). A number of key policy measures in these two sectors have been implemented as conditions for reaching in March 2003 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, which is based on the Government's comprehensive strategic framework covering 2000-05 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 database for measuring income 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 base poverty in Benin, such as the planned Poverty and Social Impact Assessment (PSIA) on cotton sector reforms. 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 evaluating poverty in the country. In addition, the Bank has prepared a Poverty Assessment, which will be delivered to the government in early August 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 comprehensive reform of this sector, aimed at

liberalizing and strengthening the capacity of producers, has been undertaken 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 (SONAPRA) in cotton marketing, 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 privatization of the SONAPRA, as well as, the strengthening of the capacities of producer's associations and the new private institutions managing the sector. As Benin's PRSP indicates, there has been an apparent increase in rural poverty including in cotton-producing areas, in spite of sustained economic growth in the past years. With a view to better understand this phenomenon and increase 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 Public Expenditure Reform Adjustment Credit (PERAC) and related Supplemental Credit (now both closed), the Bank played a lead role in assisting the authorities in putting in place a framework for a thorough public expenditure management reform, which was launched in 2001. The PERAC aimed at enhancing the effectiveness and poverty focus of public expenditure, with the following specific objectives: (i) the 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 an MTEF in line with PRSP priorities. The PERAC 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 an MTEF on the basis of the PRSP, the completion of a performance-based budget cycle, an introduction of a computerized budget implementation system, as well as in the area of reporting on and auditing government accounts. The Fund has supported these reform efforts through a number of financial and structural benchmarks in the PRGF management. The Fund is also providing technical assistance following the recommendation of a mission in May 2001 to prepare a fiscal transparency module of the Report on the Observance of Standards and Codes (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 intrasector allocations, in particular in the priority sectors covered by the PERAC and the future PRSCs (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 was discussed at Bank and Fund Boards in March 2003, together with a joint staff assessment prepared by Bank and Fund staffs. 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 jointly supported the Government's efforts to reach the HIPC completion point in March 2003. In this context, Bank and Fund staffs updated the debt sustainability analysis for Benin, in close collaboration with the authorities. To maintain debt sustainability after enhanced HIPC Initiative relief, 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 in the past 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 subsequent 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) 04.

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 its dialogue on macroeconomic policy reforms. The program has made satisfactory progress since approval of the PRGF arrangement in 2000. The PRGF-supported program for 2003 is consistent with the baseline budgetary scenario of the PRSP for 2003-05.

17. **Tax and custom administration 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 aimed at improving the performance of the tax and customs administrations as well as broadening the tax base. These action plans are currently being improved, with technical assistance from the Fund.

World Bank strategy

18. The Bank prepared a new Country Assistance Strategy (CAS), which was discussed at its Board on July 3, 2003. The overriding objective of the Bank's assistance in the years ahead is to help Benin reverse the recent trends of limited or no poverty reduction amid relatively robust growth. Progress in reducing poverty and attaining the Millennium Development Goals (MDGs) requires further deepening of cotton sector reforms, strengthening efforts toward diversifying the economy, making tangible progress in the social sectors, building effective and responsive public institutions, promoting gender equality, and strengthening collaboration with the private sector and civil society. The CAS describes a focused program of financial assistance and nonlending services as the Bank's contribution to addressing these challenges. It supports the implementation and further refinement of the PRSP, and it is aligned to the four PRSP pillars.¹

19. The CAS enforces 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 its support of Benin's public expenditure reform through financial and technical support. Annual single-tranche PRSCs are envisaged to become a key vehicle for Bank support for the country. A first PRSC is under preparation and is expected to be presented to the Bank's Board in December 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 (European Union, African Development Bank, Switzerland, Denmark, and the Netherlands) are

¹ The four pillars to 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 of the legal and judicial system; and (iv) improvement of employment or income-generating opportunities for the poor, and the strengthening of their capacity to participate in decision making and production.

preparing budget support operations, in close coordination with the Bank's PRSC preparation process.

Benin: Status of World Bank Portfolio
(In millions of U.S. dollars, as of July 31, 2003)

	Effectiveness Date	Original Principal (IDA)	Disbursed (IDA)
First Decentralized Cities Management	3/28/00	25.5	19.3
Social Fund	4/12/99	16.7	16.1
Distance Learning	11/22/00	1.8	1.3
Labor Force Development	3/13/01	5.0	1.2
Private Sector	8/31/00	30.4	14.9
Cotton Sector Reform	9/12/02	18.0	0.9
HIV/AIDS Multi-Sector	7/17/02	23.0	1.7
Total		120.4	55.4

21. As of July 31, 2003, the Bank lending portfolio consisted of seven operations, with a net commitment of US\$120.4 million and an undisbursed balance of US\$65 million (see table above). Out of these, one operation is scheduled for closure before end-2003. The CAS has a determined lending volume for the period FY/04-FY/06 amounting to US\$200 million. As discussed previously, a large part of IDA financing (US\$85 million) will be channeled through PRSCs. As indicated in the 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 to 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 June 30, 2003)

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 (GDDS) 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 GDDS participation, technical assistance (funded by the Japanese government) is being offered to the eight West African Economic and Monetary Union (WAEMU) countries to assist them in implementing their plans for improvement. A Fund regional advisor initiated a program of assistance in government finance statistics, for twelve months, up to July 2003. Further assistance in government finance statistics is now managed by West AFRITAC. A second program concerning real sector statistics commenced in May 2002, and has been extended to January 2004. This latter program is being undertaken in collaboration with AFRISTAT.

Real sector

2. Beninese national statistics agencies were represented at two GDDS seminars, one in Yaoundé in October 1998 and another in Bamako in April 2001. As a follow-up to the GDDS workshop in Bamako, significant initiatives are expected in order to upgrade the national accounts system in Benin. National accounts follow the 1968 System of National Accounts (SNA). Benin participates in a regional process of harmonizing statistical methodologies under the multilateral surveillance of the WAEMU aiming at the improvement of its national accounts. In 2003, the National Statistics Institute (INSAE) undertook the necessary steps to change the base year for the accounting of the agricultural output and to include the amortization in the public administration accounts.

3. Starting with 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 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 data for publication in *International Financial Statistics (IFS)* or the *Government Finance Statistics Yearbook (GFSY)*.

Monetary statistics

5. Monetary statistics are compiled and disseminated by the regional Central Bank of West African States (BCEAO). There has been an 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. In 1999 the BCEAO accelerated the sorting out of currency notes, which resulted, in the case of Benin, in a sharp increase in both currency in circulation and the central bank's foreign assets; however more progress is needed to avoid bias in monetary statistics.

7. A monetary and financial statistics mission visited the BCEAO headquarters in May 2001 and STA participated in a BCEAO-sponsored seminar on monetary statistics in April 2003. In these regional forums, STA reviewed with the BCEAO representatives outstanding methodological issues that concern the member countries of the WAEMU and discussed the BCEAO's plans to adopt the *Monetary and Financial Statistics Manual*.

Balance of payments

8. The BCEAO is responsible for compiling and disseminating the balance of payments statement and has made significant improvements over the past few years in order to enhance data consistency. Technical assistance provided to the BCEAO by STA in balance of payments statistics (through the assignment of a statistical advisor from July 1996 through July 1999) has contributed to the improved reporting of balance of payments data in the framework of the *Balance of Payments Manual* (fifth edition) since 1996.

9. Regarding trade data, the customs computer system (SYDONIA)¹ was upgraded in 1999, and its installation in all main border customs houses is being completed; this should allow for a better monitoring of import data and should improve the coverage of informal trade, especially with Nigeria.

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

10. Further improvement in the data for services and transfers (especially workers' remittances) will depend on the intensification of the contacts with reporting bodies. The authorities' commitment to strengthen the human and technical resources should be enhanced.

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.

Benin: Core Statistical Indicators
(As of August 13, 2003)

	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	03/03	03/03	03/03	03/03	06/03	06/03	12/02	12/02	06/03	2002	2002
Date received	Current	06/03	06/03	06/03	06/03	07/03	07/03	05/03	05/03	07/03	05/03	05/03
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/FIN	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/FIN=IMF, Economic Information System, and Finance Department; BCEAO=Central Bank of West African States.

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



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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Review Under Benin's PRGF Arrangement and Approves US\$3.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review of Benin's performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The Board also granted a waiver for the non observance of performance criteria pertaining to the net bank credit to the government and the deficit of the government at end-March 2003. As a result, Benin will be able to draw up to SDR 2.69 million (about US\$3.7 Million).

Benin's PRGF arrangement was approved on July 17, 2000 (see [Press Release No. 00/43](#)), for SDR 27 million (about US\$37.4 million). On July 15, 2002, the arrangement was extended through March 31, 2004. So far, Benin has drawn SDR 22.96 million (about US\$31.8 million).

The PRGF is the IMF's most concessional facility for low income countries. PRGF-supported programs are 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). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period.

After the Executive Board's discussion on Benin on September 10, 2003, Agustin Carstens, Deputy Managing Director and Acting Chairman, stated:

"Benin continued to enjoy robust economic growth and subdued inflation, during the first half of 2003. Strong fiscal measures during the second quarter of 2003 put the program back on track, after a weakening of fiscal performance in early 2003, in part reflecting election-related spending overruns. To address the fiscal slippages, the authorities strengthened customs administration and made spending cuts in nonpriority areas, allowing scope for improved execution of poverty-reducing expenditure. Although the reform process in the cotton sector is well advanced, the authorities had to adopt new timetables for the divestiture of the public utility companies, as a result of the delays incurred during the first quarter of 2003. The authorities are still working on generating the necessary consensus for civil service reform.

“During the remainder of 2003 and over the medium term, the authorities intend to vigorously implement the ambitious economic framework underpinning the poverty-reduction strategy adopted in December 2002, which commits them to pursuing prudent macroeconomic policies, fiscal consolidation, and a deep structural reform agenda. The primary fiscal objective for the remainder of 2003 is to strengthen the fiscal position, while increasing social spending by broadening the tax base, limiting nonpriority outlays, and strengthening public expenditure management. Higher expenditure in priority sectors in 2004 will be contingent upon securing grants or concessional financing consistent with the objective of debt sustainability.

“Structural reforms are crucial to achieve sustained high economic growth and diversification, and to reduce poverty. In particular, the authorities are committed to adhering to the schedule for divestiture of public utilities, the state-owned bank, and the state-owned ginning enterprise; to defining a civil service reform strategy rapidly; and to ensuring that the rules governing the new private sector institutions in the cotton sector are fully enforced.

“Following the completion of their Poverty Reduction Strategy Paper (PRSP) at end-2002, the authorities have undertaken deeper analysis of the poverty situation in Benin and begun to reinforce the mechanisms to monitor implementation of poverty-reducing measures and evaluate outcomes. They intend to complete the first progress report on PRSP implementation shortly and to finalize the first annual assessment of the poverty reduction strategy in early 2004,” stated Mr. Carstens.