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Benin: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance of a Performance Criterion, and Request for Extension of the Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin

In the context of the third review under the three-year Arrangement under the Poverty Reduction and Growth Facility for Benin, and its requests for waiver of nonobservance of a performance criterion and extension of the arrangement, the following documents have been released and are included in this package:

- the staff report for the Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of a Performance Criterion and Extension of the Arrangement, prepared by a staff team of the IMF, following discussions that ended on September 26, 2007, 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 December 20, 2007. 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 staff supplement on the joint World Bank/IMF debt sustainability analysis.
- a Press Release summarizing the views of the Executive Board as expressed during its January 9, 2008 discussion of the staff report that completed the review and requests.
- a statement by the Executive Director for Benin.

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

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Benin*

*May also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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BENIN

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance of a Performance Criterion, and Request for Extension of the Arrangement

Prepared by the African Department
(In consultation with other departments)

Approved by Robert J. Corker and Anthony Boote

December 20, 2007

- **Fund relations.** Approved in August 2005, a three-year PRGF arrangement (10 percent of quota) expires on August 4, 2008; the second review was completed on June 11, 2007. The authorities have requested that the arrangement be extended through August 4, 2009, to allow for full disbursement of committed resources. Macroeconomic performance is broadly satisfactory, but progress on structural reforms remains slow; staff recommends completion of the third review, which would allow disbursement of SDR 0.88 million (1.4 percent of quota).
- **Staff team.** Mr. Matungulu (head), Messrs. Youm, Samake, and Benicio (all AFR). The team was assisted by Mr. Yao (resident representative).
- **Mission dates.** September 12-26, 2007.
- **Interlocutors.** President Boni Yayi; Senior Minister for Development, Economy and Public Policy Assessment, Mr. Koupaki; Finance Minister, Mr. Lawani; National Director of the BCEAO, Mr. Marcel A. de Souza; and other senior officials, and representatives of civil society, donors, and the business community.

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EXECUTIVE SUMMARY

- **Economic performance continues to improve,** albeit gradually. A rebound in economic activity has broadly held, although at 4.2 percent in 2007 growth is below initial program expectations and short of levels consistent with meeting the Millennium Development Goals (MDGs). Growth is expected to accelerate again in 2008, with inflation remaining low.

- **Fiscal performance has been strong**. A key objective of raising the revenue ratio is being met, allowing a more rapid consolidation of the deficit than programmed. However, spending execution is slow because pro-growth and pro-poor outlays are hampered by the economy's limited absorption capacity. Benin's debt burden remains sustainable.

- **The structural reform agenda seeks to refocus cotton sector reforms** after an attempt to privatize state-owned ginning factories failed because of irregularities in the bidding process and a weak investor response. Other structural reforms will aim to strengthen public financial management, accelerate preparations for state disengagement from the electricity and telecommunications sectors, and enhance the competitiveness of the port. The authorities are also working to improve the efficiency of the financial sector and to reform the legal and judicial systems.

- **Staff recommends completion of the third review under the PRGF arrangement.**

I. Summary of Recent Economic Developments and Program Performance

- Real GDP growth is expected to firm to 4.2 percent in 2007 (3.8 percent in 2006), underpinned by good performance in agriculture, and in the transport, telecommunications, and port sectors. However, growth remains weaker than anticipated under the program, constrained by lower-than-expected cotton output and a severe energy shortage (Table 1 and Figure 1).

- Reflecting improved food availability, CPI inflation is projected to ease to under the WAEMU target of 3 percent in 2007. The real effective exchange rate stabilized, as continued appreciation of the Euro-pegged CFA franc against the dollar was compensated for by Benin's favorable inflation differential with its trading partners.

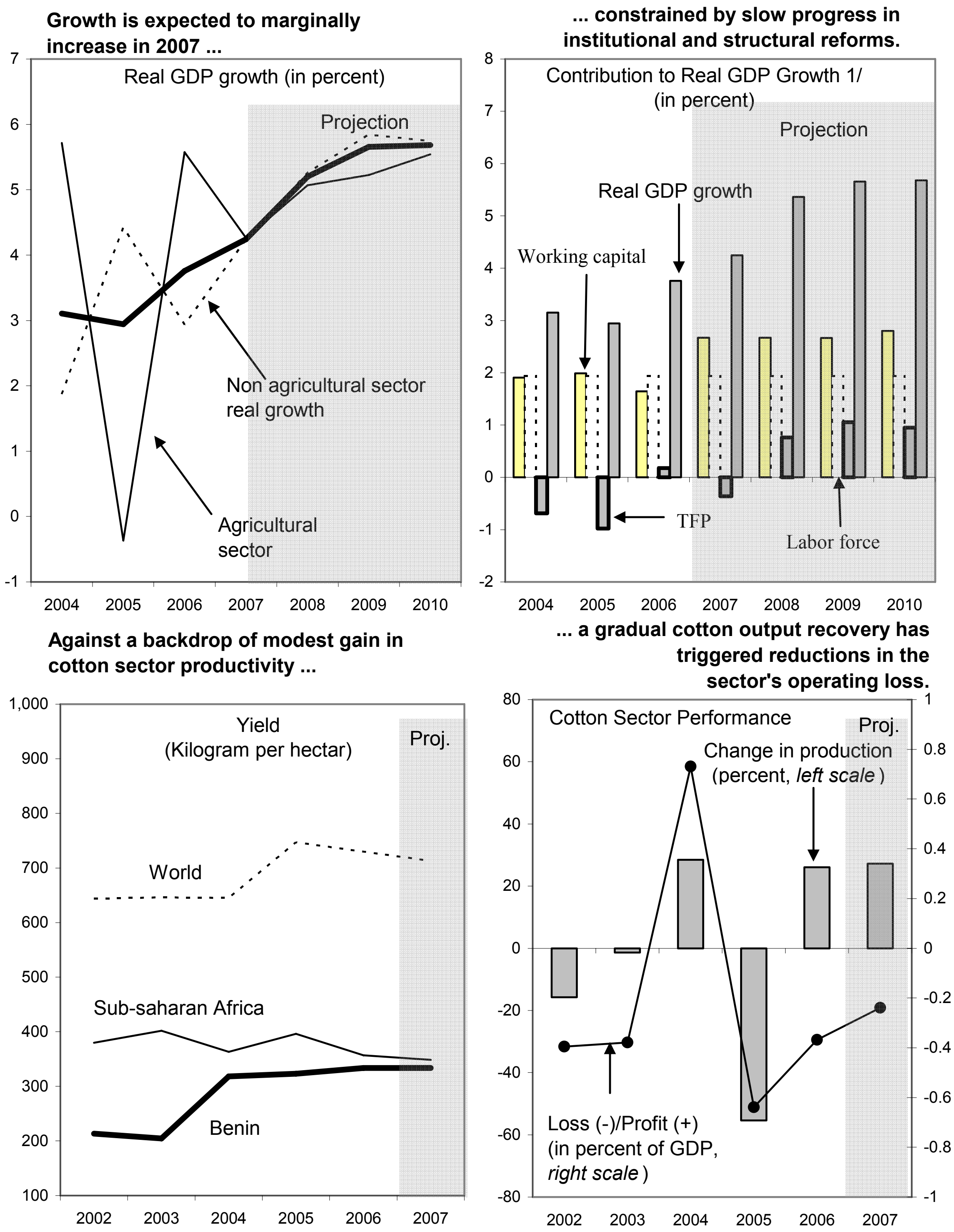
- The authorities have stepped up efforts to improve revenue collection and enforce expenditure procedures, permitting a further strengthening of the fiscal position. The current account deficit, excluding grants, is marginally narrowing, driven by higher, albeit below program level, cotton exports.

- As net bank credit to the government has declined, growth of credit to the private sector has remained at nearly 10 percent, with some shift towards longer-term credit and lending to nontrade services, especially telecommunications. Broad money is projected to grow by 7.6 percent in 2007, broadly in line with the increase in nominal GDP.

- All quantitative performance criteria and benchmarks for end-June 2007 were observed. However, state disengagement from the cotton ginning parastatal (SONAPRA)—a delayed end-June performance criterion, was not effected. The government brought the ginning company to the point of sale, but did not follow through because of irregularities in the bidding process, and a weak private sector response. Also, finalization of an action plan for customs reform (an end-September structural benchmark) was postponed to end-December 2007, due to difficulties in timely securing technical expertise.

- Quantitative and structural performance criteria and benchmarks have been set through end-June 2008 (MEFP, Tables 1 and 2).

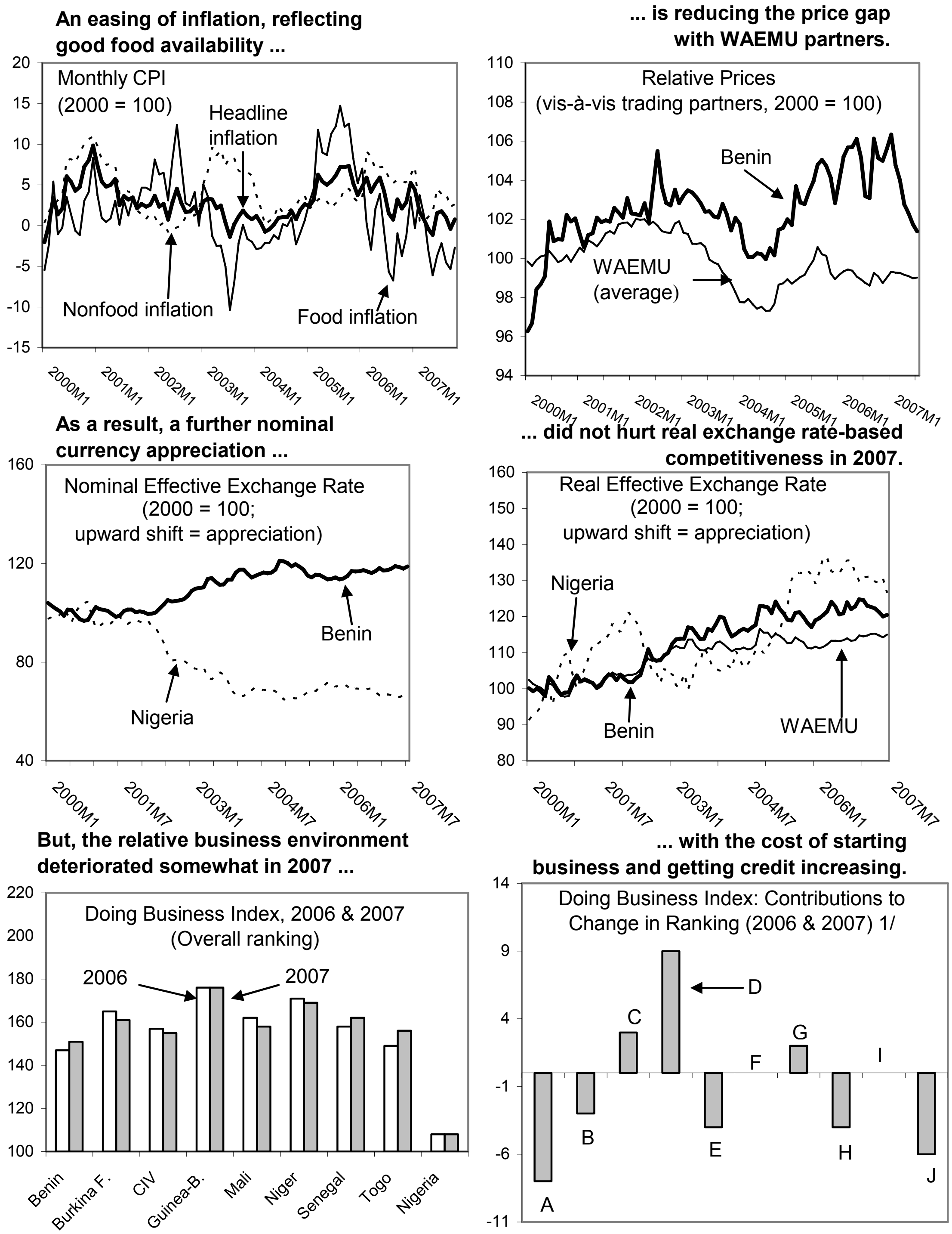
Figure 1. Benin: Growth Performance and Outlook, 2004–10



Source: Beninese authorities; and Fund staff estimates.

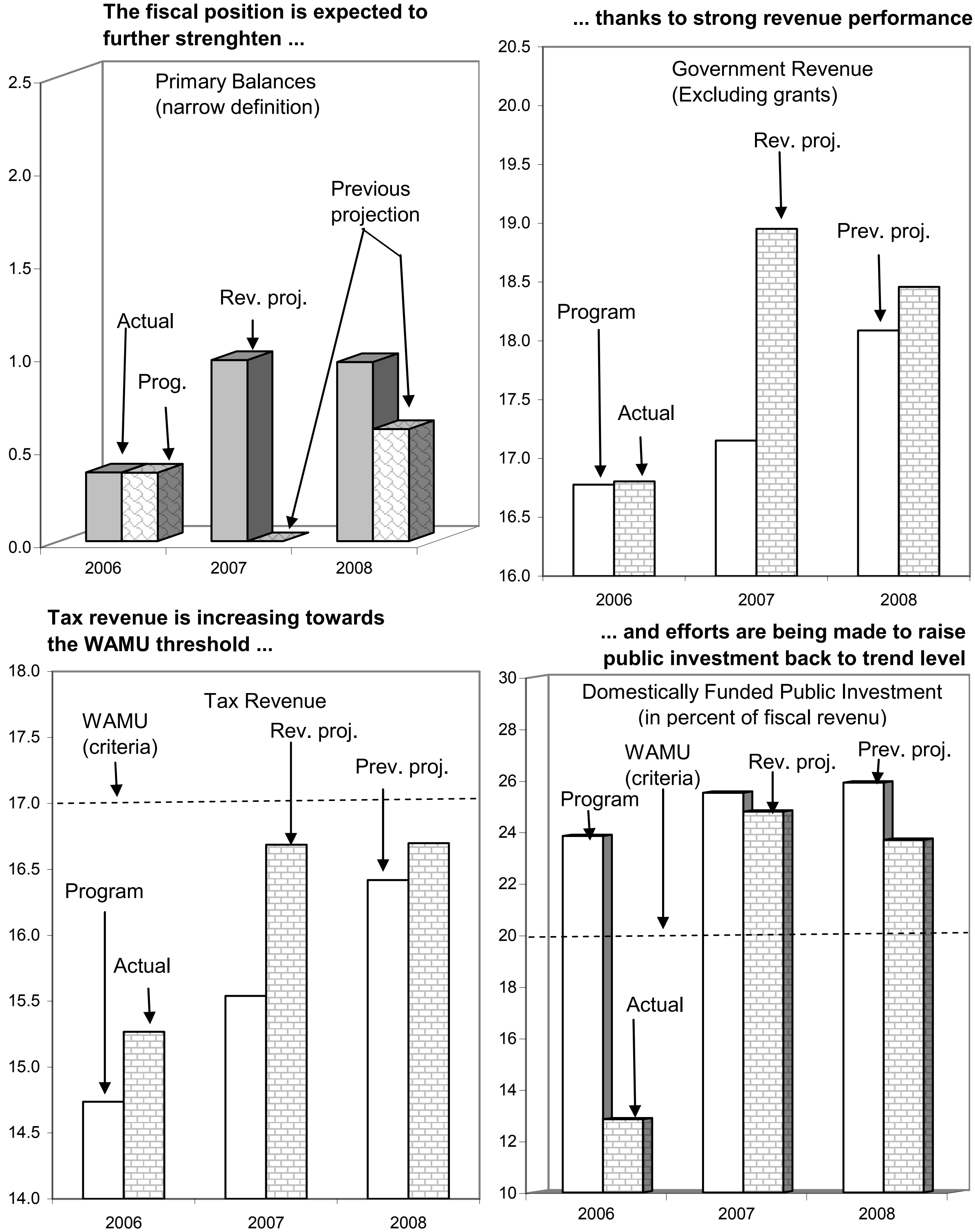
1/ Using the standard growth accounting methodology with two assumptions:
(a) factor of production complementaries (Cobb-Douglas)
(b) the alpha coefficient (capital-output elasticity) is 0.4.

Figure 2. Benin: Prices and Competitiveness, 2000–07



Sources: Beninese authorities; Fund staff estimates, and World Bank, Doing Business 2006 and 2007.
1/ A=Starting business; B=Dealing with lincenses; C=Employing workers; D=Registering property; E=Getting credit; F=Protecting investors; G=Paying taxes; H=Trading across borders ; I=Enforcing contracts; and J= Closing business.

Figure 3. Benin: Fiscal Developments and Prospects, 2006–08
(In percent of GDP, unless otherwise indicated)



Source: Beninese authorities; and Fund staff estimates.

II. Report on the Discussions

1. **The authorities emphasized their commitment to preserving macroeconomic stability and increasing investment in infrastructure and human capital in order to raise growth to levels consistent with greater poverty alleviation**. Accordingly, they underscored continuation of prudent macroeconomic policies, creation of fiscal space for increased pro-growth and pro-poor spending, and acceleration of structural reforms, to enhance the competitiveness of the economy and ensure its diversification. Recognizing the importance of the cotton sector, they stressed their intention to broaden the sector's reform strategy in the wake of the failed privatization of the ginning factories.

A. Macroeconomic Framework and Policies

2. **Over the medium term, growth is projected to strengthen and inflation to ease, assuming a broadly favorable world economic environment** (Text table 1 and Table 1). The authorities' major growth-supporting initiatives include:

- actions to ensure adequate supply of fertilizers and insecticides for the cotton campaign;
- contingency measures to improve electricity supply, including limited fiscal incentives to importers of power generators, and acquisition of turbines for SBEE, the electricity parastatal;
- preparations to involve a strategic partner in Port of Cotonou management; and
- efforts to enhance trade with Nigeria.

Text table 1. Benin: Selected Macroeconomic Indicators, 2007–10
(Percent of GDP; unless otherwise indicated)

	2007	2008		2009		2010
	Proj.	2nd review CR No. 07/213	Proj.	2nd review CR No. 07/213	Proj.	Proj.
Real GDP (annual change)	4.2	5.2	5.4	5.5	5.7	5.7
Inflation (annual change, end-year)	2.1	2.9	2.7	2.9	2.7	2.9
External current account balance 1/	-6.7	-5.9	-6.1	-5.6	-6.0	-6.0
Revenue	19.0	18.1	18.5	18.6	18.8	19.1
Expenditure	22.6	22.3	22.5	22.5	22.8	23.0
Narrow primary balance	1.0	0.6	1.0	1.0	1.0	1.1
Overall fiscal balance 1/ 2/	-3.7	-4.2	-4.1	-3.9	-4.0	-3.9
Memorandum items:						
Production of cotton (in '000 of tons) 3/	306.0	476.0	346.8	527.3	384.2	425.6
Investment-to-GDP ratio	22.1	22.1	22.3	22.3	22.4	23.1
Terms of trade (annual change)	-2.1	7.0	6.4	5.0	5.1	-3.3

Sources: Beninese authorities; and IMF staff estimates.

1/ Excluding grants.
2/ Payment order basis.
3/ Data for growing season 2005-06, 2006-07, 2007-08, and 2008-09.

3. **Prospective macroeconomic developments are subject to risks**. The main immediate risks include volatile world cotton and oil prices, uncertainties regarding domestic cotton production, and problems in electricity supply. Over the medium term, growth could be weakened by delays in implementing structural reforms, including in the cotton sector.

Fiscal policy

4. **The 2007 fiscal strategy aimed to preserve key priority sector outlays and achieve further budget consolidation.** Prompted by stronger-than-anticipated revenues, the authorities introduced a supplementary budget in September, upwardly revising 2007 revenue and expenditure targets. The revised budget saves at least half of the revenue gain in excess of program targets, pending improvements in expenditure management.

Text table 2. Benin: Fiscal Developments, 2006–07
(Percent of GDP)

	2006	2007		
		June	December	
	Actual	Est.	CR No. 07/213	Proj.
Revenue	16.8	8.9	17.2	19.0
Tax revenue	15.3	8.2	15.5	16.7
Tax on international trade	8.4	4.4	8.3	9.1
Nontax revenue	1.5	0.6	1.6	2.3
Total expenditures	19.4	6.9	21.7	22.6
Primary expenditures	16.4	6.2	17.2	18.0
Wages	5.4	2.5	5.4	5.6
Other current expenditures	7.9	2.5	6.6	6.9
Investment financed from budget	2.0	0.6	4.0	4.1
Primary balance (narrow)	0.4	2.6	0.0	1.0
Overall balance (payment orders)	-2.6	1.9	-4.5	-3.7
Overall balance (Cash basis)	-2.3	-0.3	-6.1	-5.2
Financing	2.3	0.3	6.1	5.2
Domestic Financing	-2.0	-1.3	-0.2	-1.5
Bank financing	-2.0	-2.1	-1.2	-2.5
Nonbank financing	0.1	0.8	1.0	1.0
TBs	1.4	1.3	...	1.3
External financing	4.2	1.5	6.2	6.6

Sources: Beninese authorities; and IMF staff estimates.

The surplus on the (narrowly defined) primary budget is thus projected to reach the equivalent of 1 percent of GDP (0.4 percent of GDP in 2006), against the balanced position initially targeted. Revenue improvements reflect efforts to strengthen governance in the revenue agencies, and implement recent FAD technical assistance recommendations aimed at enhancing the efficiency of tax and customs administration, especially at the large and medium-sized taxpayer units. An estimated 1 percent of GDP was raised from exceptional mobile phone fees.[1]

5. **Beyond good revenue performance, the strengthening fiscal position in 2007 reflects capacity limitations that prevent implementation of a more ambitious spending program.** Owing to weaknesses in procurement and project design and monitoring, and to limited overall absorption capacity, domestically-funded capital outlays are being contained at 4.1 percent of GDP, much below the target of 6.2 percent of GDP initially envisaged by the authorities. The investment budget includes funding for projects that had been suspended because of insufficient resources, including the construction of several hundred classrooms, and supports new major infrastructure operations such as the construction of housing and roads.

6. **The 2008 budget approved by Parliament is consistent with the program**. If the recent tax revenue trend is maintained, and assuming that domestically-financed capital expenditures are maintained around 4 percent of GDP, the program objective of a narrowly defined budget surplus equivalent to at least ½ percent of GDP in 2008 would be observed (Tables 1, 2 and 3). To sustain the revenue uptick, the authorities intend to continue ongoing efforts to strengthen tax and customs administration (MEFP, paragraph 15). On the spending side, special investment-monitoring units have been set up, and the authorities are strengthening procurement functions to accelerate capital spending execution. To keep wage increases in check, the authorities want to maintain the program ceiling on the wage bill, citing weaknesses in expenditure management and highly vocal civil service trade unions. Staff urged them to phase out the ceiling as more progress is made on strengthening budget and payroll systems.

7. The government is committed to using revenue in excess of program targets to accelerate the pace of fiscal consolidation or to fund pro-poor spending programs selected in consultation with World Bank staff. Net government borrowing would remain limited, with the debt-to-GDP ratio contained at 14 percent at end-2008, compared to 35 percent before MDRI relief in 2006. Over the medium term, PEM reforms would permit a more efficient use of domestic revenue and external assistance, and underpin a more ambitious pro-poor and pro-growth spending program.

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[1] In May 2007, the authorities increased the licensing fee for cellular phone companies, retroactively, to US$60 million—from US$10 million.

8. **The 2008 budget is fully financed.** Budgetary support from development partners would fully cover the financing gap of 1.5 percent of GDP. The bulk of domestic financing, mostly from the regional financial market, is to cover spending for public infrastructure projects.[2] Given delays in finalizing such projects, the pace of borrowing from the regional financial market has slowed, and loans already contracted have been placed in commercial bank accounts, at an interest rate of 6.8 percent.

External debt

9. **The 2007 DSA concludes that Benin's risk of debt distress is moderate.[3]** All debt indicators are projected to remain below their respective policy-dependent thresholds under the baseline scenario. However, with lower than assumed real GDP growth, the NPV of debt-to-exports ratio limit may be breached. Stress tests indicate that nonconcessional borrowing and exchange rate shocks would cause debt ratios to quickly approach, but not exceed the thresholds. These results are consistent with the November 2006 DSA finding and reiterate the need for continued prudence in debt management.

B. The Structural Reform Agenda

Public Expenditure Management

10. **The authorities are pursuing improvements in public financial management (PFM) and in the financial position of the civil service pension fund**. They have completed arrangements to introduce a single taxpayer identification number system before end-December 2007 (structural benchmark), and are finalizing an audit of Benin's public finance automated information systems (end-December 2007 structural benchmark). Implementation of recommendations would make expenditure accounting more comprehensive, improving spending execution and monitoring. The authorities are finalizing a reform strategy for the civil service pension fund (end-December 2007 structural benchmark) to address the fund's annual operating deficit of ½ percent of GDP per year.

Structural reforms

11. **The government has yet to achieve long-awaited acceleration of its cotton sector reform agenda.** Last August, the authorities issued bids to privatize state-owned cotton factories, receiving only one credible offer—from the local private sector's major cotton

[2] A high-level Infrastructure Committee is being developed to assist the Presidential Investment Council in vetting envisaged projects.

[3] The analysis takes account of authorities' comments at a joint Fund/World Bank DSA seminar organized during discussions for the third review. See Supplement I for more details.

company. After irregularities were discovered in the selection process, and to avoid creating a private monopoly in a sector that touches the lives of some 40 percent of the population, the government cancelled the bidding process[4] in early November, further delaying state disengagement from cotton fiber production and export activities.

12. **With technical assistance from the World Bank, the authorities plan to complete a comprehensive cotton sector reform strategy in 2008**. A thorough review of economic and institutional constraints prevailing in the sector has been initiated. Beyond disengaging from ginning activities, the authorities seek to address the sector's distortions in a comprehensive endeavor that substantially enhances the competitiveness of production and marketing operations. This would include a strengthening of the private sector's role in the determination of producer prices and the awarding of contracts for the import and distribution of fertilizers and other inputs. The authorities are determined to finalize the new cotton sector reform strategy before end-December 2008 (structural benchmark), and ensure an early implementation. To enhance reform ownership, the strategy is to be prepared in consultation with concerned stakeholders.

13. **Enhancing the competitiveness of the Port of Cotonou and expediting state disengagement from public utilities are high on the authorities' agenda.** The Millennium Challenge Account (MCA-Benin) authorities managing port reform were confident that the new deadline (end-December 2007) for finalizing an action plan for customs reforms would be observed (MEFP Table 2). With funding from MCA-Benin, the government is putting in place a near-concessionning arrangement that would involve a foreign partner of international repute in port management. Recruitment proceedings are to be completed in the first quarter of 2008; a resident port management expert will be posted before end-June 2008. Regarding public utilities, new management teams are overseeing the restructuring of telecommunications and electricity parastatals. Invitations for bids for the two companies are to be issued before end-January 2009.

14. **Preparations for other MCA-funded reforms aimed at enhancing the efficiency of the land tenure and judicial systems, and facilitating credit access for small- and medium-scale enterprises (SMSEs) are under way**. Feasibility studies and sector strategies are being launched, including an evaluation of financial services demand. Proposed reforms are expected to get into full gear in 2008-09. By 2011, several positive outcomes would be achieved, including a 26 percent increase in the volume of financial services to SMSEs, a 50 percent decrease in average portfolio risk, and a tripling of the number of formally supervised microfinance institutions and of new bank loans backed by proper land titles.

[4] In particular, relevant legal provisions on minimum time for bids preparation and submission were not observed, and there were allegations of insider trading and favoritism.

15. **The authorities are taking steps to improve commercial bank compliance with prudential indicators.** A large percentage of resident banks (accounting for more than 50 percent of total bank deposits) do not meet some key prudential ratios in the areas of solvency, connected lending, and liquidity ratios. To help remedy this and, more generally, to bolster WAEMU banks' position against competing institutions in the greater ECOWAS region, the central bank (BCEAO) is raising the minimum capital requirement from CFAF 1 billion to 10 billion.[5] For Benin, a financial sector development strategy, in addition to a regional FSAP, both expected to be completed in 2008, will help identify further measures to improve banking sector compliance.

C. The PRSP Process

16. **The authorities presented an updated Growth Strategy for Poverty Reduction Paper (GSPRP, 2007-09) to the Boards of the IMF and World Bank in June 2007**. The first APR is expected to be completed in early 2008. The authorities concur that more rigorous implementation of reforms would be needed to reach the ambitious growth rates targeted in the GSPR.

III. Staff Appraisal

17. **Economic performance continues to improve, although at a moderate pace.** Growth has picked up, but needs to accelerate to facilitate progress toward the MDGs. To that end, the structural reform agenda must be vigorously pursued.

18. **Benin's fiscal position has strengthened in 2007, consolidating recent macroeconomic stability gains.** Revenue is estimated to have reached a record high, reflecting improved governance at revenue agencies; and expenditure procedures are being more rigorously enforced. Lower net bank credit to the government has facilitated private sector borrowing. The authorities are to be commended for these achievements.

19. **The implementation of structural reforms remains frustratingly slow.** A rain-fed rebound in cotton production is holding up, supporting some strengthening of economic activity. However, absent the long-awaited reform of the cotton sector, risks to the program's growth objectives would considerably increase over the medium term. Thus, completion of the authorities' new cotton sector strategy, including a timetable for early implementation, is a key priority. The World Bank's readiness to remain engaged in the sector is encouraging and should be utilized to the fullest by the authorities. In the port, electricity, and telecoms sectors, the authorities are taking steps to ensure reforms are executed consistent with the current PRGF arrangement. Determined action in these areas is needed to underwrite better growth prospects, facilitating progress toward the MGDs.

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[5] Incumbent banks are given three years to raise their capital to a minimum of CFA 5 billion as from January 2008; newly created banks would start with a minimum capital of CFA 3 billion. The timetable for reaching the new threshold of CFA 10 billion will be set after an assessment is made in 2010

20. **Stronger public financial management should help to ensure effective use of increased revenue and aid.** This requires improving absorption capacity and ensuring preservation of Benin's currently moderate risk of debt distress. The authorities' efforts to improve public expenditure management (PEM), including the strengthening of procurement functions and development of domestic expertise in project design and implementation, are welcome. These would bring about needed improvements in the management of the investment budget. The authorities are encouraged to finalize their PEM strategy and continue adhering to prudent wage and debt policies.

21. **Preparations for second-generation reforms should be accelerated.** Reforms to facilitate credit access to small- and medium-sized enterprises and promote private sector development are key to diversifying production and exports.

22. **The risks to Benin's PRGF-supported program remain broadly manageable**. The country's revenue performance is steadily improving, in tandem with better expenditure management. This should mitigate risks to fiscal sustainability. On the other hand, the authorities need to make good on their efforts to expedite the structural reform agenda, and to improve absorption capacity. Sustained donor support, helped by a strengthened government position in parliament and broader ownership of reforms, remains critical.

23. **Staff recommends completion of the third review and supports the request for both a waiver for the missed performance criterion and extension of the arrangement by twelve months to allow for full disbursements under the PRGF arrangement**. Given the governance problems uncovered in the bidding process and the disappointing investor interest, the government's good-faith attempts to privatize the cotton ginning factories stalled. Under the circumstances, the authorities' launch of, and commitment to complete, a new cotton sector strategy in 2008, with technical support by the Bank, is an appropriate remedial action.

Table 1. Benin: Main Economic and Financial Indicators, 2006–10

	2006		2007		2008		2009		2010
	CR No. 07/213 1/	Est.	CR No. 07/213	Proj.	CR No. 07/213	Proj.	CR No. 07/213	Projection	
	(Annual changes in percent, unless otherwise indicated)								
National income									
GDP at current prices	7.1	6.9	7.8	7.4	8.2	8.3	8.4	8.7	8.7
GDP at constant prices	4.1	3.8	4.5	4.2	5.2	5.4	5.5	5.7	5.7
GDP deflator	2.9	3.1	3.1	3.0	2.8	2.8	2.7	2.8	2.9
Consumer price index (average)	3.8	3.8	3.0	2.0	2.8	2.4	2.8	2.6	2.9
Consumer price index (end of period)	5.3	5.3	2.9	2.1	2.9	2.7	2.9	2.7	2.9
Production of cotton (in '000 of tons) 2/	285.0	240.6	420.0	306.0	476.0	346.8	527.3	384.2	425.6
Central government finance									
Revenue	8.7	8.7	10.2	21.1	14.1	5.5	11.3	10.5	10.8
Expenditure and net lending	-2.0	-1.5	21.1	25.1	11.4	7.8	9.1	9.9	9.7
Money and credit									
Net domestic assets 3/	-4.3	-4.1	1.5	3.9	6.1	5.9	6.2	7.2	7.0
Domestic credit 3/	-2.8	-2.6	0.8	2.6	3.7	5.9	2.9	7.2	7.0
Net claims on central government 3/	-7.4	-7.3	-4.8	-8.2	-0.7	-1.8	-2.1	-2.0	-1.6
Credit to the nongovernment sector	9.0	6.1	11.1	9.8	8.1	7.7	9.3	9.1	8.6
Broad money	16.3	16.5	5.2	7.6	8.4	8.2	8.4	9.3	8.5
Velocity (GDP relative to average M2)	3.3	3.3	3.3	3.2	3.3	3.2	3.3	3.2	3.2
External sector (in terms of CFA francs)									
Exports, f.o.b.	-14.3	-23.4	30.7	24.6	24.9	16.7	17.2	11.4	10.2
Imports, f.o.b.	1.6	2.8	13.7	14.5	10.4	7.9	10.9	8.8	8.7
Export volume	-9.1	-27.5	25.1	21.6	15.3	10.9	9.4	6.0	10.8
Import volume	4.2	4.4	9.7	9.4	9.0	9.2	8.7	8.8	5.7
Terms of trade (minus = deterioration)	-3.1	-4.2	0.8	-2.1	7.0	6.4	5.0	5.1	-3.3
Nominal effective exchange rate (minus = depreciation)	-0.3	-0.3	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	0.2	1.1	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Basic ratios									
Gross investment	18.1	18.1	21.7	22.1	22.1	22.3	22.3	22.4	23.1
Government investment	4.6	4.6	8.2	8.4	8.7	8.5	8.9	8.4	9.1
Private sector investment	13.6	13.6	13.5	13.7	13.4	13.8	13.4	13.9	14.0
Gross domestic saving	7.1	6.6	10.9	10.6	12.1	11.3	12.6	11.7	12.4
Government saving	2.2	2.3	5.6	5.9	6.3	6.1	5.8	5.3	7.5
Nongovernment saving	4.9	4.3	5.3	4.7	5.8	5.2	6.8	6.3	5.0
Gross national saving	11.7	11.9	15.5	16.4	16.2	16.2	16.7	16.4	17.1
Central government finance									
Revenue	16.8	16.8	17.2	19.0	18.1	18.5	18.6	18.8	19.1
Expenditure and net lending	19.3	19.4	21.7	22.6	22.3	22.5	22.5	22.8	23.0
Primary balance 4/	-2.3	-2.3	-4.2	-3.3	-3.9	-3.5	-3.5	-3.5	-3.4
Primary balance (narrow definition) 5/	0.4	0.4	0.0	1.0	0.6	1.0	1.0	1.0	1.1
Overall fiscal deficit (payment order basis, excl. grants)	-2.5	-2.6	-4.5	-3.7	-4.2	-4.1	-3.9	-4.0	-3.9
Overall fiscal deficit (cash basis, excluding grants)	-2.2	-2.3	-6.1	-5.2	-4.7	-4.6	-4.3	-4.4	-4.3
Debt service (after debt relief) in percent of rev. 1/ 6/	3.6	3.6	3.4	3.8	3.3	4.4	3.0	4.0	4.0
External sector									
Trade balance	-10.2	-10.7	-9.8	-10.9	-9.0	-10.4	-8.7	-10.2	-10.1
Current account balance (excluding grants)	-7.1	-7.0	-6.3	-6.7	-5.9	-6.1	-5.6	-6.0	-6.0
Current account balance (including grants)	-6.4	-6.2	-6.1	-5.7	-5.9	-6.1	-5.6	-6.0	-6.0
Overall balance of payments	4.7	4.7	-0.6	1.1	-0.3	-0.8	-0.7	-1.0	-0.8
Debt-service to exports ratio 1/	5.6	5.7	4.9	6.0	4.5	5.5	4.1	5.3	5.5
Net present value of debt-to-exports ratio	88.5	88.5	81.6	80.8	77.4	79.6	78.5	84.3	88.8
Debt-to-GDP ratio (after HIPC and before MDRI)	36.1	35.4	33.7	34.1	32.8	34.5	31.9	35.4	35.9
Debt-to-GDP (post MDRI)	10.5	12.0	11.0	13.6	11.9	14.2	12.8	14.9	15.4
Gross reserves in months of imports	14.7	14.8	13.7	13.7	12.9	13.2	12.0	12.6	11.9
Nominal GDP (in billions of CFA francs)	2,485.3	2,481.0	2,680.0	2,664.0	2,898.7	2,885.6	3,142.3	3,135.6	3,409.4
CFA francs per U.S. dollar (period average)	522.4	522.4	...	...	...	...	...	...	...
Population (midyear, in millions)	7.6	7.6	7.9	7.9	8.1	8.1	8.3	8.3	8.6

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

1/ The 2006 projections incorporate the MDRI resources for the IMF, IDA and AfDF in stock operations.

2/ Cotton production for T-1/T season. Production of cotton seed in crop year T-1/T affects agricultural production in year T-1, while industry, services, and exports of ginned cotton in year T.

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

4/ Total revenue minus all expenditure, excluding interest due.

5/ Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.

6/ Interest payment only.

Table 2 . Benin: Consolidated Central Government Operations, 2006–10

	2006	2007		2008		2009		2010
	Est.	CR No. 07/213	Proj.	CR No. 07/213	Proj.	CR No. 07/213	Projection	
		(In billions of CFA francs)						
Total revenue	416.9	459.7	504.9	524.3	532.7	583.6	588.9	652.3
Tax revenue	378.8	416.5	444.5	475.9	481.8	531.5	534.1	593.2
Tax on international trade	207.4	221.4	241.4	257.0	259.5	283.6	288.8	317.9
Direct and indirect taxes	171.4	195.1	203.1	218.9	222.4	247.9	245.3	275.3
Nontax revenue	38.1	43.2	60.4	48.4	50.9	52.1	54.8	59.0
Total expenditure and net lending	482.1	580.6	603.1	647.1	650.3	705.8	714.6	784.0
Current expenditures	367.5	361.2	379.8	393.9	406.1	426.9	450.6	474.7
Current primary expenditures	359.2	353.9	368.8	383.6	390.8	415.5	436.0	460.3
Wages	135.0	145.1	148.3	156.0	159.4	167.7	171.4	184.3
Pensions and scholarships	29.3	31.6	37.0	34.2	40.1	37.0	43.4	47.1
Transfers and current expenditures	194.9	177.2	183.5	193.4	191.2	210.8	221.2	228.9
Current transfers	102.2	76.9	86.8	83.2	86.8	90.6	102.3	95.7
Other current expenditure	92.7	100.3	96.7	110.2	104.4	120.2	118.9	133.3
Interest	8.3	7.3	11.0	10.3	15.3	11.3	14.6	14.4
Internal debt	0.2	1.7	1.7	3.4	6.7	3.3	5.3	4.3
External debt	8.1	5.6	9.3	6.9	8.6	8.1	9.3	10.1
Capital expenditures and net lending	114.6	219.4	223.3	253.2	244.2	278.9	264.0	309.3
Investment	113.4	219.4	223.3	253.2	244.2	278.9	264.0	309.3
Financed by domestic resources	48.6	106.2	110.2	123.3	114.1	136.6	121.1	153.9
Financed by external resources	64.8	113.2	113.2	129.9	130.1	142.3	142.9	155.4
Net lending (minus = reimbursement)	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-65.1	-120.9	-98.2	-122.7	-117.6	-122.2	-125.7	-131.8
Change in arrears	-15.0	-43.0	-48.0	-15.0	-15.0	-15.0	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-15.0	-43.0	-48.0	-15.0	-15.0	-15.0	-15.0	-15.0
Payments during complementary period/float 1/	24.1	0.5	8.0	1.0	1.0	1.5	1.5	1.5
Overall balance (cash basis, excl. grants)	-56.1	-163.4	-138.2	-136.7	-131.6	-135.7	-139.2	-145.3
Financing	56.1	118.6	138.3	107.8	88.1	95.2	87.2	101.2
Domestic financing	-48.4	-4.1	-38.8	-11.7	-27.3	-37.4	-41.2	-38.2
Bank financing	-50.1	-31.6	-66.4	-5.7	-15.9	-18.8	-18.5	-16.4
Net use of Fund resources	-31.3	1.3	1.3	1.3	1.3	0.7	0.7	0.0
Disbursements	0.0	1.3	1.3	1.3	1.3	0.7	0.7	0.0
Repayments	-31.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-18.9	-32.9	-67.7	-7.0	-17.2	-19.5	-19.1	-16.4
Nonbank financing	1.7	27.6	27.6	-6.0	-11.4	-18.5	-22.7	-21.7
Privatization	0.0	15.0	15.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-5.7	-6.0	-6.0	-6.0	-6.0	-5.0	-5.0	-4.0
Other	7.5	18.6	18.6	0.0	-5.4	-13.5	-17.7	-17.7
External financing	104.5	122.7	177.1	119.5	115.4	132.6	128.4	139.4
Project financing	64.8	113.2	113.2	129.9	130.1	142.3	142.9	155.4
Grants	37.6	60.6	60.6	68.8	68.9	76.1	76.4	83.1
Loans	27.2	52.6	52.6	61.1	61.2	66.2	66.5	72.3
Amortization due	-548.5	-10.3	-9.9	-10.5	-14.7	-9.7	-14.5	-16.0
Program aid	18.1	19.8	73.9	0.0	0.0	0.0	0.0	0.0
Grants	18.1	4.5	27.4	0.0	0.0	0.0	0.0	0.0
Loans	0.0	15.3	46.5	0.0	0.0	0.0	0.0	0.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	31.3							
IDA & AfDF	538.9							
Financing gap 2/	0.0	44.8	0.0	29.0	43.5	40.5	52.1	44.0
Memorandum items:		(In percent of GDP, unless otherwise indicated)						
Total grants and revenue	19.0	19.6	22.3	20.5	20.8	21.0	21.2	21.6
Grants	2.2	2.4	3.3	2.4	2.4	2.4	2.4	2.4
Revenue	16.8	17.2	19.0	18.1	18.5	18.6	18.8	19.1
Total expenditure	19.4	21.7	22.6	22.3	22.5	22.5	22.8	23.0
Of which: wage bill	5.4	5.4	5.6	5.4	5.5	5.3	5.5	5.4
Capital expenditure	4.6	8.2	8.4	8.7	8.5	8.9	8.4	9.1
Overall balance (payment order basis, excl. grants)	-2.6	-4.5	-3.7	-4.2	-4.1	-3.9	-4.0	-3.9
Overall balance (payment order basis, incl. grants)	-0.4	-2.1	-0.4	-1.9	-1.7	-1.5	-1.6	-1.4
Primary balance	-2.3	-4.2	-3.3	-3.9	-3.5	-3.5	-3.5	-3.4
Primary balance (narrow definition) 3/	0.4	0.0	1.0	0.6	1.0	1.0	1.0	1.1
Current balance	2.0	3.7	4.7	4.5	4.4	5.0	4.4	5.2
Debt relief (in billions of CFA francs)	20.1	19.2	18.9	18.6	18.2	16.8	16.5	14.8
GDP (in billions of CFA francs)	2,481.0	2,680.0	2,664.0	2,898.7	2,885.6	3,142.3	3,135.6	3,409.4

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

1/ Payment orders curried over to the following fiscal year.

2/ For 2008, adequate financing has been identified from bilateral and multilateral partners.

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

Table 3. Benin: Consolidated Central Government Operations, 2006-10
(Percent of GDP)

	2006	2007		2008		2009		2010
	Est.	CR No. 07/213	Proj.	CR No. 07/213	Proj.	CR No. 07/213	Projection	
Total revenue	16.8	17.2	19.0	18.1	18.5	18.6	18.8	19.1
Tax revenue	15.3	15.5	16.7	16.4	16.7	16.9	17.0	17.4
Tax on international trade	8.4	8.3	9.1	8.9	9.0	9.0	9.2	9.3
Direct and indirect taxes	6.9	7.3	7.6	7.6	7.7	7.9	7.8	8.1
Nontax revenue	1.5	1.6	2.3	1.7	1.8	1.7	1.7	1.7
Total expenditure and net lending	19.4	21.7	22.6	22.3	22.5	22.5	22.8	23.0
Current expenditures	14.8	13.5	14.3	13.6	14.1	13.6	14.4	13.9
Current primary expenditures	14.5	13.2	13.8	13.2	13.5	13.2	13.9	13.5
Wages	5.4	5.4	5.6	5.4	5.5	5.3	5.5	5.4
Pensions and scholarships	1.2	1.2	1.4	1.2	1.4	1.2	1.4	1.4
Current transfers	4.1	2.9	3.3	2.9	3.0	2.9	3.3	2.8
Other current expenditure	3.7	3.7	3.6	3.8	3.6	3.8	3.8	3.9
Interest	0.3	0.3	0.4	0.4	0.5	0.4	0.5	0.4
Internal debt	0.0	0.1	0.1	0.1	0.2	0.1	0.2	0.1
External debt	0.3	0.2	0.4	0.2	0.3	0.3	0.3	0.3
Capital expenditures and net lending	4.6	8.2	8.4	8.7	8.5	8.9	8.4	9.1
Investment	4.6	8.2	8.4	8.7	8.5	8.9	8.4	9.1
Financed by domestic resources	2.0	4.0	4.1	4.3	4.0	4.3	3.9	4.5
Financed by external resources	2.6	4.2	4.2	4.5	4.5	4.5	4.6	4.6
Net lending (minus = reimbursement)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-2.6	-4.5	-3.7	-4.2	-4.1	-3.9	-4.0	-3.9
Change in arrears	-0.6	-1.6	-1.8	-0.5	-0.5	-0.5	-0.5	-0.4
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	-0.6	-1.6	-1.8	-0.5	-0.5	-0.5	-0.5	-0.4
Payments during complementary period/float	1.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-2.3	-6.1	-5.2	-4.7	-4.6	-4.3	-4.4	-4.3
Financing	2.3	4.4	5.2	3.7	3.1	3.0	2.8	3.0
Domestic financing	-2.0	-0.2	-1.5	-0.4	-0.9	-1.2	-1.3	-1.1
Bank financing	-2.0	-1.2	-2.5	-0.2	-0.6	-0.6	-0.6	-0.5
Net use of Fund resources	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.8	-1.2	-2.5	-0.2	-0.6	-0.6	-0.6	-0.5
Nonbank financing	0.1	1.0	1.0	-0.2	-0.4	-0.6	-0.7	-0.6
Privatization	0.0	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Other	0.3	0.7	0.7	0.0	-0.2	-0.4	-0.6	-0.5
External financing	4.2	4.6	6.6	4.1	4.0	4.2	4.1	4.1
Project financing	2.6	4.2	4.2	4.5	4.5	4.5	4.6	4.6
Grants	1.5	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Loans	1.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Amortization due	-22.1	-0.4	-0.4	-0.4	-0.5	-0.3	-0.5	-0.5
Program aid	0.7	0.7	2.8	0.0	0.0	0.0	0.0	0.0
Grants	0.7	0.2	1.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.6	1.7	0.0	0.0	0.0	0.0	0.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	1.7	0.0	1.0	1.5	1.3	1.7	1.3

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

Table 4. Benin: Central Government Operations, Quarterly , 2007-09

	2007									2008			2009
		March		June		Sept.		Dec.		March	June	Dec.	Dec.
	CR No. 07/213	Est.	CR No. 07/213	Est.	CR No. 07/213	Proj.	Est.	CR No. 07/213	Proj.	Projections			
	(Cumulative value in billions of CFA francs)												
Total revenue	97.3	118.9	204.2	235.5	323.1	347.7	371.7	459.7	504.9	132.1	261.3	532.7	588.9
Tax revenue	89.0	111.6	187.1	219.2	293.9	314.8	326.8	416.5	444.5	120.9	237.6	481.8	534.1
Tax on international trade	46.7	63.2	97.1	118.3	153.9	167.0	180.5	221.4	241.4	67.9	127.2	259.5	288.8
Direct and indirect taxes	42.3	48.5	90.0	100.9	140.0	147.8	146.3	195.1	203.1	53.0	110.4	222.4	245.3
Nontax revenue	8.3	7.3	17.1	16.3	29.2	33.0	44.9	43.2	60.4	11.2	23.7	50.9	54.8
Total expenditure and net lending	120.6	63.8	227.8	184.8	366.9	366.4	321.9	580.6	603.1	97.3	235.0	650.3	714.6
Current expenditures	88.3	58.3	163.7	151.9	264.7	262.2	245.9	361.2	379.8	90.0	182.1	406.1	450.6
Current primary expenditures	87.0	56.8	159.6	149.3	259.6	256.4	242.3	353.9	368.8	88.6	179.7	390.8	436.0
Wages	36.3	30.6	66.0	66.0	110.3	112.7	99.8	145.1	148.3	36.0	76.0	159.4	171.4
Pensions and scholarships	7.9	6.9	15.8	16.6	23.7	27.8	25.2	31.6	37.0	7.5	18.0	40.1	43.4
Transferts and current expenditures	42.8	19.3	77.8	66.7	125.7	115.9	117.3	177.2	183.5	45.1	85.8	191.2	221.2
Current transfers	22.0	9.3	36.0	28.6	61.0	53.6	53.1	76.9	86.8	19.3	35.6	86.8	102.3
Other current expenditure	20.8	10.0	41.8	38.1	64.7	62.3	64.2	100.3	96.7	25.8	50.1	104.4	118.9
Interest	1.2	1.5	4.1	2.5	5.0	5.8	3.6	7.3	11.0	1.4	2.4	15.3	14.6
Internal debt	0.0	0.0	0.1	0.0	0.5	0.5	0.0	1.7	1.7	0.0	0.0	6.7	5.3
External debt	1.2	1.5	4.0	2.5	4.5	5.2	3.6	5.6	9.3	1.4	2.4	8.6	9.3
Capital expenditures and net lending	32.3	5.5	64.1	32.9	102.2	104.2	76.0	219.4	223.3	7.3	52.9	244.2	264.0
Investment	32.3	5.8	64.1	34.6	102.2	104.2	77.9	219.4	223.3	7.3	52.9	244.2	264.0
Financed by domestic resources	18.1	1.2	31.7	16.8	52.8	54.7	38.5	106.2	110.2	2.0	32.4	114.1	121.1
Financed by external resources	14.3	4.6	32.4	17.9	49.4	49.4	39.4	113.2	113.2	5.3	20.5	130.1	142.9
Net lending (minus = reimbursement)	0.0	-0.3	0.0	-1.7	0.0	0.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-23.3	55.1	-23.6	50.7	-43.8	-18.6	49.8	-120.9	-98.2	34.8	26.3	-117.6	-125.7
Change in arrears	-2.5	-0.6	-40.2	-8.4	-40.2	-40.2	-40.2	-43.0	-48.0	-4.9	-7.3	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	-2.5	-0.6	-40.2	-8.4	-40.2	-40.2	-40.2	-43.0	-48.0	-4.9	-7.3	-15.0	-15.0
Change in payments float	-8.7	-21.2	-11.0	-49.1	-4.6	-4.6	-7.6	0.5	8.0			1.0	1.5
Overall balance (cash basis, excl. grants)	-34.6	33.3	-74.8	-6.8	-88.6	-63.4	2.0	-163.4	-138.2	29.9	19.0	-131.6	-139.2
Financing	34.5	-33.3	70.3	6.8	68.3	29.4	-2.0	118.6	138.3	-31.1	-20.6	88.1	87.2
Domestic financing	-8.4	-50.3	-1.6	-34.2	5.0	-41.4	-72.5	-4.1	-38.8	-32.1	-35.4	-27.3	-41.2
Bank financing	-39.2	-76.9	-45.8	-56.0	-38.6	-70.7	-95.9	-31.6	-66.4	-32.1	-35.4	-15.9	-18.5
Net use of Fund resources	0.7	0.0	0.7	0.7	1.3	1.3	0.6	1.3	1.3	0.0	0.7	1.3	0.7
Other	-39.9	-76.9	-46.5	-56.7	-39.9	-72.0	-96.5	-32.9	-67.7	-32.1	-36.1	-17.2	-19.1
Nonbank financing	30.8	26.6	44.2	21.9	43.6	29.3	23.4	27.6	27.6	0.0	0.0	-11.4	-22.7
Privatization	0.0	0.0	15.0	0.0	15.0	15.0	0.0	15.0	15.0	0.0	0.0	0.0	0.0
Restructuring	-2.1	-1.6	-3.7	-5.8	-4.3	-4.3	-9.3	-6.0	-6.0	0.0	0.0	-6.0	-5.0
Other	32.9	28.3	32.9	27.7	32.9	18.6	32.7	18.6	18.6	0.0	0.0	-5.4	-17.7
External financing	42.8	17.0	71.9	41.0	63.3	70.8	70.5	122.7	177.1	1.0	14.8	115.4	128.4
Project financing	25.4	4.6	59.5	17.9	53.0	53.0	39.4	113.2	113.2	5.3	20.6	130.1	142.9
Grants	12.3	1.5	31.1	6.2	8.4	8.4	11.5	60.6	60.6	1.6	7.1	68.9	76.4
Loans	13.0	3.1	28.4	11.6	44.7	44.7	27.9	52.6	52.6	3.6	13.5	61.2	66.5
Amortization due	-2.3	-2.8	-7.5	-3.9	-9.5	-9.2	-6.9	-10.3	-9.9	-4.2	-5.8	-14.7	-14.5
Program aid	19.8	15.3	19.8	27.0	19.8	27.0	38.0	19.8	73.9	0.0	0.0	0.0	0.0
Grants	4.5	0.0	4.5	11.7	4.5	11.7	11.7	4.5	27.4	0.0	0.0	0.0	0.0
Loans	15.3	15.3	15.3	15.3	15.3	15.3	26.3	15.3	46.5	0.0	0.0	0.0	0.0
MDRI grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.1	0.0	4.5	0.0	20.3	34.0	0.0	44.8	0.0	1.1	1.6	43.5	52.1
Financing assurances	0.1	0.0	4.5	0.0	20.3	34.0	0.0	44.8	0.0	1.1	1.6	43.5	52.1
World Bank	0.0	0.0	0.0	0.0	2.5	2.5		14.9	0.0	...	...	...	...
AfDB	0.0	0.0	0.0	0.0	12.0	12.0		12.0	0.0	...	...	...	...
EU (grants)	0.1	0.0	4.5	0.0	4.5	11.7		7.2	0.0	...	...	...	...
Others	0.0	0.0	0.0	0.0	1.3	7.7		10.7	0.0	1.1	1.6	43.5	52.1
Memorandum items:													
Primary expenditure 1/	119.4	62.3	223.6	182.2	361.9	360.6	318.3	573.3	592.1	95.9	232.6	635.0	700.0
Primary balance 2/	-22.1	56.6	-19.5	53.3	-38.8	-12.9	53.4	-113.7	-87.2	36.2	28.7	-102.3	-111.1
Primary balance (narrow definition)	-7.8	60.9	12.9	69.4	10.7	36.6	90.9	-0.5	26.0	41.5	49.2	27.8	31.8
Current balance	9.0	60.6	40.5	83.6	58.4	85.5	125.8	98.5	125.1	42.1	79.2	126.6	138.3
Nominal GDP	2,680.0	2,664.0	2,680.0	2,664.0	2,680.0	2,664.0	2,664.0	2,680.0	2,664.0	2,883.6	2,883.6	2,885.6	3,135.6

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

Table 5. Benin: Balance of Payments, 2006–10

	2005	2006 1/		2007		2008		2009		2010
	Act.	CR No.	Est.	CR No.	Proj.	CR No.	Proj.	CR No.	Projection	
	3rd rev.	07/213		07/213		07/213		07/213		
	(In billions of CFA francs)									
Trade balance 2/	-214.8	-252.3	-265.5	-261.8	-290.6	-261.2	-299.3	-274.5	-320.5	-345.1
Exports, f.o.b.	171.3	147.2	131.2	192.3	163.5	240.2	190.8	281.6	212.6	234.2
Cotton and textiles	92.7	51.5	51.5	87.1	66.3	125.9	84.2	152.5	103.3	107.6
Other	78.6	95.7	79.7	105.2	97.2	114.4	106.6	129.1	109.2	126.6
Imports, f.o.b.	-386.0	-399.4	-396.8	-454.1	-454.1	-501.5	-490.1	-556.2	-533.1	-579.3
Of which: petroleum products	-69.0	-83.0	-83.0	-90.0	-91.8	-100.4	-118.5	-109.3	-127.7	-133.9
Services (net)	-24.8	-22.3	-20.3	-27.1	-16.1	-30.0	-16.8	-31.7	-16.0	-17.1
Credit	129.6	121.1	134.3	128.0	140.0	146.2	160.2	152.3	166.7	171.9
Debit	-154.4	-143.4	-154.6	-155.0	-156.1	-176.2	-177.0	-183.0	-181.8	-189.0
Income (net)	-20.3	-18.1	-9.7	-22.5	-13.5	-24.5	-14.6	-25.9	-16.5	-18.8
Of which: interest due on government debt	-5.6	-5.6	-8.1	-5.6	-9.3	-6.9	-8.6	-8.1	-9.3	-10.1
Current transfers (net)	111.1	134.0	140.9	146.7	168.0	144.7	155.5	155.1	165.5	177.4
Unrequited private transfers	63.6	72.4	79.3	76.7	84.2	78.5	87.0	84.5	92.5	99.5
Public current transfers	47.5	61.6	61.6	70.0	83.8	66.2	68.5	70.6	72.9	77.8
Of which: program grants	8.2	18.1	18.1	4.5	27.4	0.0	0.0	0.0	0.0	0.0
Current account balance	-148.8	-158.7	-154.7	-164.7	-152.2	-171.1	-175.3	-177.1	-187.6	-203.6
Current account balance (excl. program grants)	-157.0	-176.7	-172.8	-169.2	-179.6	-171.1	-175.3	-177.1	-187.6	-203.6
Capital account balance	39.7	607.8	607.8	60.6	60.6	68.8	68.9	76.1	76.4	83.1
Official project grants 3/	39.7	37.6	37.6	60.6	60.6	68.8	68.9	76.1	76.4	83.1
Debt cancellation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital transfers (MDRI grants)	0.0	570.2	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF (Stock operation)	0.0	31.3	31.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank (IDA) & AfDB (stock op.)	0.0	538.9	538.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	179.5	-333.3	-337.2	89.2	121.6	93.3	82.8	80.5	79.1	91.9
Medium- and long-term public capital	47.0	-517.4	-517.4	61.6	93.1	59.7	55.6	56.5	52.0	56.3
Disbursements	56.8	31.1	31.1	71.8	103.0	70.2	70.3	66.2	66.5	72.3
Project loans	32.0	31.1	31.1	56.6	56.6	70.2	70.3	66.2	66.5	72.3
Program loans	24.8	0.0	0.0	15.3	46.5	0.0	0.0	0.0	0.0	0.0
Amortization due	-9.7	-548.5	-548.5	-10.3	-9.9	-10.5	-14.7	-9.7	-14.5	-16.0
Medium- and long-term private capital	51.9	56.4	56.4	27.7	28.5	33.5	27.3	24.0	27.2	35.5
Deposit money banks	-20.4	26.5	26.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	55.0	53.5	53.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	46.0	47.7	43.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	70.5	115.8	115.8	-14.8	30.0	-9.0	-23.5	-20.5	-32.1	-28.7
Financing	-70.4	-115.8	-115.8	-30.0	-30.0	-20.0	-20.0	-20.0	-20.0	-15.3
Change in net foreign assets (minus = increase)	-70.4	-115.8	-115.8	-30.0	-30.0	-20.0	-20.0	-20.0	-20.0	-15.3
Of which: net use of Fund resources	-1.9	-30.6	-30.6	-1.3	-1.3	-1.3	-1.3	-0.7	-0.7	0.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	44.8	0.0	29.0	43.5	40.5	52.1	44.0
Memorandum items:	(In percent of GDP, unless otherwise indicated)									
Net reexports	2.6	2.7	3.0	2.7	2.9	2.7	2.9	2.6	2.8	2.7
Reexports	5.6	5.6	6.6	5.6	6.5	5.6	6.5	5.4	6.2	5.9
Imports for reexports	-3.0	-2.9	-3.6	-2.9	-3.6	-2.9	-3.5	-2.7	-3.4	-3.2
Current account balance	-6.4	-6.4	-6.2	-6.1	-5.7	-5.9	-6.1	-5.6	-6.0	-6.0
Current account balance (excl. program grants)	-6.8	-7.1	-7.0	-6.3	-6.7	-5.9	-6.1	-5.6	-6.0	-6.0
Trade balance	-9.3	-10.2	-10.7	-9.8	-10.9	-9.0	-10.4	-8.7	-10.2	-10.1
Exports	7.4	5.9	5.3	7.2	6.1	8.3	6.6	9.0	6.8	6.9
Imports	-16.6	-16.1	-16.0	-16.9	-17.0	-17.3	-17.0	-17.7	-17.0	-17.0
Services and income (net)	-1.9	-1.6	-1.2	-1.8	-1.1	-1.9	-1.1	-1.8	-1.0	-1.1
Current transfers (net)	4.8	5.4	5.7	5.5	6.3	5.0	5.4	4.9	5.3	5.2
Capital account balance	1.7	24.5	24.5	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Financial account balance	7.7	-13.4	-13.6	3.3	4.6	3.2	2.9	2.6	2.5	2.7
Overall balance	3.0	4.7	4.7	-0.6	1.1	-0.3	-0.8	-0.7	-1.0	-0.8
Financing gap	0.0	0.0	0.0	1.7	0.0	1.0	1.5	1.3	1.7	1.3
GDP (in billions of CFA francs)	2,319.7	2,485.3	2,481.0	2,680.0	2,664.0	2,898.7	2,885.6	3,142.3	3,135.6	3,409.4

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

1/ Incorporating debt relief under the MDRI (IMF, IDA and AfDF) in stock operations.
2/ Excluding reexports and imports for reexports, net balance of which is allocated between services and public transfers.
3/ Official capital grants from the United States (MCA) of the amount of US $ 307 millions will be disbursed over the period 2006-2011.
4/ The entry in 2003 is for the stock-of-debt operation at the HIPC completion point.

Table 6. Benin: Monetary Survey, 2005–08

	2005	2006		2007		2008	
	Act.	CR No. 07/213	Est.	CR No. 07/213	Proj.	CR No. 07/213	Proj.
	(In billions of CFA francs)						
Net foreign assets	386.7	529.0	529.0	559.0	559.0	579.0	579.0
Central Bank of West African States (BCEAO)	328.0	443.8	443.8	473.8	473.8	493.8	493.8
Banks	58.7	85.2	85.2	85.2	85.2	85.2	85.2
Net domestic assets	304.1	274.8	276.1	286.5	307.4	337.6	358.1
Domestic credit	356.0	336.6	337.8	343.3	359.1	374.5	409.9
Net claims on central government	-20.8	-72.1	-70.9	-110.7	-137.3	-116.4	-153.2
Credit to the nongovernment sector	375.1	408.7	408.7	454.0	496.4	490.9	563.1
Other items (net)	-51.9	-61.9	-61.8	-56.9	-51.8	-36.9	-51.8
Broad money (M2)	690.8	803.8	805.1	845.5	866.4	916.6	937.1
Currency	195.2	253.0	254.2	272.8	273.0	295.1	295.7
Bank deposits	487.0	541.6	541.7	563.5	584.2	612.4	632.3
Deposits with postal checking accounts	8.6	9.2	9.2	9.2	9.2		9.2
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)						
Net foreign assets	8.8	20.6	20.6	3.7	3.7	2.4	2.3
Net domestic assets	13.0	-4.3	-4.1	1.5	3.9	6.1	5.9
Domestic credit	13.4	-2.8	-2.6	0.8	2.6	3.7	5.9
Net claims on government	3.2	-7.4	-7.3	-4.8	-8.2	-0.7	-1.8
Credit to nongovernment sector	11.1	6.1	6.1	4.6	9.8	4.4	7.7
Broad money	21.8	16.3	16.5	5.2	7.6	8.4	8.2
Credit to the nongovernment sector							
(annual change in percent)	20.2	9.0	9.0	11.1	21.5	8.1	13.4
Memorandum items							
Velocity of broad money	3.7	3.3	3.3	3.3	3.2	3.3	3.2
Broad money as share of GDP	29.8	32.3	32.4	31.5	32.5	31.6	32.5
Nominal GDP (in billions of CFA francs)	2,319.7	2,485.3	2,481.0	2,680.0	2,664.0	2,898.7	2,885.6
Nominal GDP growth (annual change in percent)	8.5	7.1	6.9	7.8	7.4	8.2	8.3

Sources: BCEAO; and IMF staff estimates and projections.

Table 7. Benin: Schedule of Disbursements under the PRGF Arrangement, 2005–09 1/

Amount	Disbursement Date	Conditions Necessary For Disbursement 2/
SDR 0.88 million	August 12, 2005	Executive Board approval of the three-year Arrangement.
SDR 0.88 million	December 12, 2006	Observance of performance criteria for September 30, 2005, completion of the first review under the arrangement.
SDR 0.88 million	June 15, 2007	Observance of performance criteria for December 31, 2006, completion of the second review under the arrangement.
SDR 0.88 million	December 15, 2007	Observance of performance criteria for June 30, 2007, completion of the third review under the arrangement.
SDR 0.88 million	June 15, 2008	Observance of performance criteria for December 31, 2007, completion of the fourth review under the arrangement.
SDR 0.88 million	December 15, 2008	Observance of performance criteria for June 30, 2008, completion of the fifth review under the arrangement
SDR 0.91 million	June 15, 2009	Observance of performance criteria for december 31, 2009, completion of the six review under the arrangement.

Source: International Monetary Fund.

1/ Assuming access equivalent to 10 percent of quota, or SDR 6.19 million.
2/ Other than the generally applicable conditions under the PRGF arrangement, including the performance clause on the exchange and trade system.

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

	1990	1995	2001	2002	2003	2004	2015 Target	Likelihood of reaching target
Goal 1. Eradicate extreme poverty and hunger								
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.								Likely
- Population below US$ 1 a day (percent)	57.0	..	..	43.0	...	...	28.0	
- Population below minimum level of dietary energy consumption (percent)	...	29.0	23.0	..	..		10.0	
Goal 2. Achieve universal primary education								
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling								Likely for boys
- Net primary enrollment ratio (percent of relevant age group)	41.0	...	52.0	..	..	83.0	100.0	
- Percentage of cohort reaching grade 5	55.0	...	72.0	...	...	69.0		
- Youth literacy rate (percent age 15-24)	40.4	...	...	...	..	45.0		
Goal 3. Promote gender equality and empower women								
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015								Unlikely
- Ratio of girls to boys in primary and secondary education (percent)	49.5	..	65.4	67.0	68.1	71.4	100.0	
- Ratio of young literate females to males (percent ages 15-24)	43.6	47.3	52.0	52.9	..	56.1		
- Proportion of seats held by women in the national parliament (percent)	3.0	...	6.0	6.0	6.0	7.0		
Goal 4. Reduce child mortality								
Target 5: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate								Unlikely
- Under-five mortality rate (per 1,000)	185.0	170.0	160.0	..	154.0	152.0	61.7	
- Infant mortality rate (per 1,000 live births)	111.0	104.0	94.0	92.0	91.0	90.0		
- Immunization against measles (percent of children under 12-months)	79.0	65.0	65.0	78.0	83.0	85.0		
Goal 5. Improve maternal health								
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.								Unlikely
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	547.0	..	..	474.0	..	...	137.0	
Goal 6. Combat HIV/AIDS, malaria and other diseases								
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS								Likely
- HIV/AIDS prevalence	0.3	3.2	4.1	1.9	..	2.1	<6.0	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases								Likely
- Prevalence of death associated with malaria (per 10,000)	21.0	11.0		6.8	..	...	12.0	
Goal 7. Ensure environmental sustainability								
Target 9: Halve by 2015 proportion of people without access to safe drinking water								Likely
- Access to improved water source (percent of population)	63.0	..	...	...	..	67.0	80.0	

Sources: Benin's authorities and World Bank estimates and projections.

Republic of Benin
Ministry of Economy and Finance

Cotonou, December 19, 2007

The Minister

To

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. In 2007, implementation of Benin's reform program supported by the arrangement under the Poverty Reduction and Growth Facility (PRGF) was mixed. Discussions on the third program review were held with Fund staff in September 2007; these found that all quantitative performance criteria and benchmarks for the period under review had been met. In contrast, implementation of the structural reform agenda was uneven. In particular, the end-June performance criterion on the establishment of a privately controlled cotton ginning company to take over the ginning factories of the state-owned SONAPRA was not observed, due to irregularities in the bidding process and lack of interest from private investors. Also, the study on the effectiveness of customs (a structural benchmark) was not completed by the program deadline of end-September 2007.

2. The government remains committed to the thrust of its structural reform agenda, including a much needed overhaul of the cotton sector. In consultation with all stakeholders and with technical assistance from the World Bank, we plan to develop a broader cotton sector reform strategy in 2008, and to ensure its early implementation in consultation with all stakeholders in the cotton sector and with technical assistance from the World Bank. Beyond disengaging from cotton ginning activities, we intend to address existing economic and institutional constraints in a comprehensive effort to substantially enhance the competitiveness of our country's cotton production and marketing operations. Also, with technical and financial support from the US Millennium Challenge Corporation, steps have been taken to secure finalization of the study on the effectiveness of customs by end-December 2007. In the light of the corrective measures spelled out above, the government is requesting a waiver for nonobservance of the structural performance criterion on the establishment of a privately controlled cotton-ginning company, and completion of the third program review and disbursement of the related PRGF resources.

3. The economic recovery started in 2006 should continue this year, with real GDP growth reaching 4.2 percent, led by the agricultural sector, in particular cotton production, and also based on sustained activity in the trade and transport sectors, with the latter benefiting from improvements in trade flows with Nigeria and from ongoing efforts to enhance the competitiveness of the port of Cotonou. To accelerate growth and enhance the effectiveness of the poverty reduction strategy, the government intends to maintain a prudent macroeconomic policy stance, and to speed up implementation of its structural reform program. The government wishes to continue to benefit from IMF technical and financial assistance under the PRGF-supported program approved on August 5, 2005 and would like to request an extension of the PRGF arrangement until August 4, 2009, to allow for the full disbursement of the resources committed to Benin under the arrangement.

4. The Government will consult with the Fund on the adoption of these measures, and in advance of any revision to the policies contained in the Memorandum of Economic and Financial Policies, in accordance with the Fund's policies on such consultation.

5. The Government consents to the publication of both the staff report and memorandum on economic and financial policies pertaining to the discussions under the third program review.

Truly yours,

/s/
Soulé Mana Lawani

BENIN

Memorandum of Economic and Financial Policies for 2007/08

I. Introduction

1. **The government is determined to give a fresh impetus to economic growth.** In recent years, Benin's economic performance has fallen short of expectations, on account of low levels of cotton production and the recent acute energy crisis. The effect of these exogenous shocks has been exacerbated by delays in the implementation of structural reforms. However, with the support of the new presidential majority at the National Assembly, the government now intends to achieve a more sustained implementation of economic reforms, which are a prerequisite for sustained recovery and growth acceleration. The government's efforts are supported by the IMF under the PRGF arrangement approved in August 2005.

2. **This MEFP assesses program implementation in 2007 and spells out the steps to be taken to fulfill program objectives in 2008**.

II. Recent Economic Developments and Program Performance

Recent economic developments and short-term outlook

3. **The recent downtrend in economic growth was reversed in 2006**. The economy recorded a growth rate of 3.8 percent in 2006, compared to 2.9 percent in 2005. However, the recovery was less vigorous than anticipated, and cotton production failed to attain the initially projected level due to delays in the distribution of inputs and persistent institutional constraints in the sector. The increase in production of foodstuffs in the sub-region, after the 2005 food crisis, helped to curb inflation, which was contained at 3.8 percent, thereby helping to stabilize the real effective exchange rate in spite of the nominal appreciation of the CFA France relative to the dollar. The external current account deficit has stabilized around 7 percent of GDP, as the high level of the trade deficit was offset by an improvement in the unrequited transfers balance.

4. **The economic revival should continue in 2007 with a real GDP growth of 4.2 percent,** compared with an initial projection of 4.5 percent. The downward revision of growth projection reflects the combined effects of the energy crisis, particularly at the beginning of the year, and cotton production levels in 2006 that were rising, but fell short of initial projections. These developments have slowed down the rate of activity in cotton ginning and cooking oil production. Economic growth is benefiting from a modest increase in food output, and some recovery in other branches of services, particularly in the port, transport, and telecommunications sectors, with the latter receiving a significant share of

bank credit. The easing of the energy crisis in the last quarter of the year, thanks to improved rainfall and hydroelectric power production in the sub-region, has also allowed for a slightly faster recovery of economic activity. Inflation—standing at 1.8 percent (year on year) at end-July—is now firmly under control and is expected to be kept within the limits of the WAEMU convergence criterion of 3 percent, because of prudent monetary policy and good harvest of foodstuffs. The external position should stabilize overall, with a modest recovery in cotton exports, while the current account deficit should turn out at 6.7 percent of GDP.

5. **In response to social demand and in order to expedite the implementation of infrastructure projects in a number of priority areas, the government has adopted a supplementary budget for 2007.** The supplementary budget (*collectif budgétaire*) has led to an increase in poverty-reducing expenditures, covered by substantial revenue in excess of program targets, permitting a primary budget surplus equivalent to 1 percent of GDP.

6. **In 2007, government revenue is expected to reach the equivalent of 19 percent of GDP, compared to 17.2 percent of GDP in the initial program.** At end-June 2007, Government revenue reached CFAF 235.5 billion (8.8 percent of GDP), exceeding the program target by CFAF 31.3 billion (1.2 percent of GDP); also end-September revenue was projected at CFAF 347.7 billion (13.1 percent of GDP), 7.3 percent above the initial program objective. The good performance of customs revenues reflects an uptick in trade in foodstuffs and vehicles, the improvement in internal governance following substantial shifts in personnel, and more efficient utilization of IT tools. The mobilization of customs revenue also reflects the more rigorous adoption of measures to combat customs evasion at the country's land borders; intensify efforts to improve the monitoring of import valuations; simplify procedures and formalities for clearance of merchandise through customs; and keep more effective track of exemptions.

7. **The increase in domestic taxes is attributable to efforts to improve tax administration.** The good performance of VAT collection reflects strengthened tax supervision measures and the implementation of a system of refunds for exporters. The elimination of the AIB (*acompte d'impôts sur les bénéfices*) or profit tax withholding at customs border areas in favor of the 100 largest enterprises has lessened abuses in the management of tax credits and enhanced the yield of the tax on industrial and commercial profits (BIC). At the same time, with the continued restructuring of the portfolio of the Large Taxpayer Unit (DGE) and the Medium-Sized Enterprise Tax Centers (CIMEs), the floor turnover for taxpayers included in the portfolio of these entities has been raised, and capacity to raise revenue has thus been strengthened. Above and beyond the positive fallout from the efforts to streamline the performance of the revenue-collecting agencies (*régies financières*), the gain in domestic resources reflects the fact that CFAF 30 billion in additional nontax receipts was collected following the increase from CFAF 5 billion to 30 billion in the cost of the operating license for mobile telephone companies.

8. **Drawing from strong revenue performance, the supplementary budget posts some increases in certain spending categories above initial program objectives, in the health and education, agriculture and infrastructure sectors.** Total expenditure is expected reach 22.5 percent of GDP (21.7 percent under the initial program) in 2007, with current expenditures increasing to 14.1 percent of GDP, compared with 13.5 percent of GDP under the initial program. Salary payments are projected at CFAF 148.3 billion (5.6 percent of GDP), reflecting the government's prudent wage policy. The domestically financed investment budget is projected at CFAF 110.2 billion (4.1 percent of GDP), close to the initial program target, in spite of a low rate of execution (0.6 percent of GDP) in the first half of the year. It includes inter alia funding allocated to a number of investment projects that had previously been suspended due to insufficient resources, including the construction of several hundred classrooms. This budget also allows for the launching of a number of major operations such as the construction of housing, roads, and several other economic and social infrastructure projects. Following an audit, identified domestic payments arrears amounting to CFAF 33 billion have been cleared; and the government is spending the equivalent of CFAF 15 billion in repayment of its debt to civil servants.

9. **The government is continuing its efforts to strengthen public saving in 2007.** The relatively low level of expenditure execution in the first half of the year, especially in the capital budget, points to severe constraints in absorption capacity. While these constraints are being gradually overcome, the government has invested unutilized funds in high-yield term deposits with the banking system in order to ensure that they are put to most effective use in the context of the budgets for 2008 and subsequent years. Thus, the narrowly defined primary balance (commitment basis) is expected to turn into a surplus equivalent to 1 percent of GDP, compared with a balanced position under the initial program, and the overall budget deficit (commitment basis excluding grants) would be brought down to 3.7 percent of GDP (compared to 4.5 percent of GDP under the initial program). The financing gap should be limited to CFAF 46.4 billion (i.e., 1.7 percent of GDP), to be financed as follows: (i) World Bank; CFAF 19.2 billion; (ii) EU: CFAF 5.3 billion; (iii) African Development Bank: CFAF 12 billion; and (iv) bilateral partners: CFAF 9.9 billion.The 2007 budget is fully financed.

10. **Developments in monetary aggregates during the twelve months ending June 30, 2007 were marked by an increase in money supply and an upturn in credit to the economy and in net foreign assets of the banking system.** The net claims of the banking system on the government declined, as good revenue performance and slow expenditure execution resulted in a sizable increase in government deposits with the banking system. With these developments continuing into the second half of the year, money supply and credit to the economy are expected to increase by about 8 percent and 22 percent in 2007, respectively, both above the increase in the nominal GDP growth rate.

Program implementation

11. **All quantitative performance criteria and benchmarks for end-June 2007 were observed.** However, the sale (scheduled for end-November 2007) of the ginning units of SONAPRA to a private ginning company was not completed, and the study assessing Benin's customs system, initially scheduled to be completed at end-September 2007, has yet to be finalized because of delays in enlisting needed technical expertise. The study is now expected to be completed by end-December 2007.

III. ECONOMIC AND FINANCIAL POLICIES IN 2008

A. Macroeconomic Framework

12. **In spite of a challenging energy situation and the vagaries of the climate, the government is determined to expedite its efforts to accelerate growth.** In this respect, the authorities put macroeconomic stability and the strengthening of social and economic infrastructures at the forefront of their economic policy, and the government is committed to speeding up implementation of its structural reform agenda. The economic program focuses on achieving real GDP growth of 5.4 percent in 2008, with inflation kept within the limits of the relevant WAEMU convergence criterion, facilitated by a prudent monetary policy and continuing progress on fiscal consolidation.

13. **The medium-term outlook for the economy faces risks.** The government is mindful of the major challenges ahead, including the intermittent power cuts which could undermine activity in the secondary sector, or even the tertiary sector. Persistent institutional distortions that impede the optimal functioning of the cotton sector; rising world oil prices; and low absorption capacity impose further constraints on economic recovery efforts. To mitigate their adverse effects on the economy, we have taken action in the sectors concerned. In the energy sector, the government has granted tax incentives to businesses for the acquisition of autonomous electricity generation units, and is planning to help SBEE, the electric power utility, acquire additional capacity to generate 80 MGW of electric power. In the cotton sector, the government has cancelled bids issued in August to secure state disengagement from cotton ginning activities because of irregularities in the bidding process and lack of interest from private investors. Nevertheless, the government remains committed to completing this key reform in the context of a broader cotton sector strategy to be completed in 2008.

B. Budget Policy

14. **In 2008, budget policy will further protect expenditure aimed at reducing poverty and supporting growth, while strengthening medium-term fiscal**

sustainability. For this purpose, the government intends to maintain the primary budget surplus at its 2007 level (1 percent of GDP), and to contain the overall budget deficit (commitment basis, excluding grants) to the equivalent of 4 percent of GDP. Total revenue is expected to reach 18.5 percent of GDP, while total expenditures would be contained at the equivalent of 22.5 percent of GDP.

15. **At CFAF 532.7 billion (18.5 percent of GDP), government revenue would increase by 5.5 percent**. After correcting for the effect on 2007 revenue resulting from the initial down payment of license fees by mobile telephone companies, the improvement in revenue is expected to derive from further resource mobilization efforts by the General Directorate of Taxes and Government Property (DGID) and the General Directorate of Customs (DGDI). In particular, these comprise: (i) broadening of the tax base by stepping up the registration of medium-scale enterprises; (ii) ensuring the effective implementation of the new single taxpayer identification number system; (iii) enhancing the computer capacity of the tax centers for medium-scale enterprises (CIMEs); (iv) strengthening efforts to combat customs evasion through more rigorous post-clearance monitoring of merchandise covered by exemptions; (v) upgrading the effectiveness of customs IT tools through the extension of ASYCUDA++; and (vi) establishing new customs posts and delocalizing certain posts to ensure greater efficiency.

16. **Expenditures are projected to rise by 7.8 percent to CFAF 649.8 billion in 2008**. The increase is consistent with government efforts to strengthen social and economic infrastructure. In this broad framework, the wage bill is expected to reach CFAF 159.4 billion (5.5 percent of GDP), reflecting the authorities' prudent policy—notwithstanding limited personnel recruitment in the key sectors of education and health, agriculture, and revenue-collecting agencies (*régies financières*).

17. **Efforts to improve expenditure management will be continued**. In particular, the government is endeavoring to gradually overcome bottlenecks in the area of capital expenditure management by strengthening management capacity and operational resources of the National Commission for the Regulation of Government Procurement (CNRMP), the National Directorate of Government Procurement (DNMP), and the government procurement units (CPMP) working in conjunction with the contracting authorities. The government also plans to establish a Large Project Preparation and Monitoring Committee which will, inter alia, handle the selection of key infrastructure projects and monitor their implementation, including by preparing the necessary feasibility studies and identifying sources of financing in keeping with public debt sustainability requirements. As a result of all these improvements, domestically funded capital expenditures is to reach CFAF 114.1 billion, or about 4 percent of GDP. Nonetheless, in the event of lower-than-anticipated revenue mobilization, the government intends to adjust the amount of expenditure in line with the established objective for the primary budget balance, while safeguarding budget allocations

for poverty-reducing expenditure. The government will continue efforts to clear government debt to civil servants in the amount of CFAF 15 billion (0.5 percent of GDP).

18. **To finance the overall budget deficit (excluding grants, cash basis) estimated at 4.5 percent of GDP,** the government will rely, inter alia, on external donor support, including CFAF 130.1 billion (4.5 percent of GDP) in the form of project grants and loans. Budgetary assistance expected from the EU, the World Bank, and other bilateral and multilateral partners, including the African Development Bank, in an amount equivalent to CFAF 42.6 billion (1.5 percent of GDP) ensures that the 2008 budget is fully financed.[1]

C. Monetary Policy

19. **Monetary policy will continue to be conducted at the regional level by the BCEAO.** It will support the external position of the zone by maintaining international reserves at sufficient levels and keeping inflation at a rate compatible with the CFA franc peg to the Euro. Broad money is expected to increase by 8.4 percent in 2008, i.e., a rate of growth equal to that of nominal GDP growth. While net bank credit to the government will continue to decline, credit to the economy should grow by 13.4 percent approximately.

D. Balance of Payments and External Debt

20. **The overall balance on the external accounts is expected to deteriorate slightly and to attain 0.7 percent of GDP in 2008**. These reflects, inter alia, an upturn in imports, including imports of petroleum products in a context of quickening economic growth and high prices for petroleum products, in addition to a more moderate recovery of exports. The external current account deficit, exclusive of grants, is nonetheless expected to narrow slightly, moving to 6.1 percent of GDP in 2008 as against 6.7 percent of GDP in 2007, supported by a relatively higher net current transfers.

21. **The external position should remain viable in the medium-term, in the wake of the rise in exports of cotton, miscellaneous agricultural and fishery products, as well as more rapid growth in services, including tourism.** International reserves should represent about 12 months of imports through the year 2010. Taking into account debt relief under the HIPC and MDRI Initiatives and the recent cancellation of Chinese and Russian debts, and assuming average new external liabilities in the amount of 2 percent of GDP per annum over the coming years, the stock of external debt—estimated at 12 percent of GDP at end-2007—is expected to stay below 15 percent of GDP in the medium term. The government

[1] The government will ensure that public bonds contracted on the WAEMU financial market meet the financing needs of projects that have undergone prior feasibility studies, so as to ensure that they make an optimal contribution to strengthening the economy's growth potential.

will continue to pursue a cautious borrowing policy, and will refrain from directly contracting or guaranteeing loans on nonconcessional terms.

IV. Structural Policies

22. **The authorities are endeavoring to further strengthen public financial management**. With this aim in view, upon completion of the audit of the SIGFIP, ASTER, and WMONEY computer systems at end-December, steps will be taken to ensure an early implementation of the audit's recommendations, seeking a more accurate monitoring of expenditures and payment procedures. The government also intends to complete preparation of a strategy for reforming the Benin National Pension Fund (*Fonds National de Retraite du Benin—FNRB)* before end-December 2007 and end-March 2008, respectively, and implementing promptly the relevant recommendations.

23. **Following the failed attempt to disengage from cotton ginning activities, the government intends to broaden its cotton sector reform strategy**. A thorough review of the sector has been initiated, including reassessment of prevailing economic and institutional distorsionsdistortions, and a more comprehensive reform strategy will be completed in 2008. Beyond state disengagement from cotton ginning activities, the updated strategy will seek to, inter alia, renew and strengthen the sector's institutional framework that lapsed in early 2006. Key provisions under the framework include mechanisms for setting up producer prices, and awarding contracts for fertilizers and other inputs importation and distribution. In preparing the strategy, the government intends to involve all stakeholders, with technical assistance from World Bank staff and representatives of other development partners.

24. **Government disengagement from SBEE and from Benin Télécoms SA is expected to be effected at the dates agreed to at the time of the second review under the PRGF program**. Consequently, calls for expression of interest in the privatization of the two firms will be issued by end-January 2009.

25. **Reforms of the port sector.** With support from MCA-Benin, the government will continue to work to strengthen the competitiveness of the Port of Cotonou. In particular, the government is committed to involving the private sector in the management of port facilities and improving the economic and fiscal role played by DGDDI, the customs directorate. In this context, the government has launched calls for expressions of interest aimed at the recruitment—by end-June 2008—of a port expert to participate in the day-to-day management of the port, with a view to modernizing its working methods. Furthermore, the government is carefully monitoring the preparation of the ongoing study assessing the efficiency of the country's customs system. This study, initially scheduled for end-September, is now expected to be completed by end-December 2007. With the

implementation of the study's recommendations beginning in 2008, in particular the effective implementation of the Virtual One-Stop Shop and the Consolidated Electronic Billing System (*Bordereau de Facturation Unique (BFU)*), the port's competitiveness will be enhanced, ensuring that foreign trade can flow freely while strengthening the collection of taxes and other trade duties.

V. Monitoring of Program Implementation

26. **To monitor progress in program implementation, (i) quantitative performance criteria and indicative targets are being set for end-December 2007, and end-March 2008, respectively; and (ii) structural targets are being set for end-December 2007, end-March, end-June, and end-December 2008** (Tables 1 and 2). Quantitative performance criteria for end-June 2008 are to be set at the time of the 4th review (Table 1, footnote 5). The government will also report to the IMF the statistical data and information indicated in the attached TMU, on a monthly basis, as well as any information which the government deems necessary or that IMF staff may request for purposes of monitoring program implementation. During the program period, the government will not introduce restrictions on payments and transfers on current international transactions, or tighten any such restrictions, without first consulting the Fund; introduce or modify multiple currency practices; conclude bilateral payments agreements not compatible with Article VIII of the IMF's Articles of Agreement; or introduce or intensify restrictions on imports for balance of payments purposes.

27. **The next program review will be conducted by end-June 2008.**

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period March 2007–June 2008
(In billions of CFA francs)

	End-March 2007 Indicative targets			End-June 2007 Performance Criteria			End-September 2007 Indicative targets		End-December 2007 Performance Criteria		End-March 2008 Indicative targets	End-June 2008 Performance Criteria 5/
	Program	Est.	Status	Program	Est.	Status	CR No. 07/213	Rev. proj.	CR No. 07/213	Rev. proj.	Projection	Projection
A. Quantitative Performance Criteria and Indicative Targets 1/												
Net domestic financing of the government 2/ 3/	-8.4	-50.3	met	-1.6	-34.2	met	5.0	-41.4	-4.1	-38.8	-32.1	-35.4
Primary fiscal balance (excluding grants)	-7.8	60.9	met	12.9	69.4	met	10.7	36.6	-0.5	26.0	41.5	49.2
Accumulation of domestic payments arrears 4/	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	0.0	0.0	met	4.5	0.0		20.3	34.0	44.8	0.0	1.1	1.6
B. Continuous quantitative performance criteria												
Accumulation of external payments arrears	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by government with maturities of 0-1 year	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcesional external contracted or guaranteed with maturities of one year or more	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative Targets (Cumulative from December 31, 2005)												
Total revenue	97.3	118.9	met	204.2	235.5	met	323.1	347.7	459.7	504.9	132.1	261.3
Wage bill	36.3	30.6	met	66.0	66.0	met	110.3	112.7	145.1	148.3	36.0	76.0

1/ The targets and performance criteria are cumulative as from end-December of previous year.
2/ The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast up to a limit of CFA francs 10 and 18 billions at end-September and end-December 2006, respectively.
3/ If external budgetary assistance exceeds the amount projected in excess of more than CFAF 3 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 3 billion, unless it is used to absorb domestic arrears.
4/ This performance criterion is monitored on a continuous basis.
5/ To be set at the fourth PRGF review.

Table 2. Benin: Prior Actions, Structural Performance Criteria, and Benchmarks for 2007–08

Measures	Date	Status
Structural performance criteria		
Establishment of a privately controlled ginning company to purchase and operate the ginning plants of SONAPRA.	End-June 2007	Call for bids was unsuccessful; authorities to develop a new cotton sector strategy in 2008
Structural benchmarks		
Completion of a study (and related action plan) updating the customs reform agenda.	End-September 2007	In progress; to be completed by end-December
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	In progress
Implementation of a single taxpayer identification number.	End-December 2007	In progress
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	In progress
Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices.	End-March 2008	In progress
Completion of a strategy to improve public finance management.	End-March 2008	In progress
Involve external expertise in "Port Autonome de Cotonou" management.	End-June 2008	Recruitment in progress
Completion of the new cotton sector reform strategy.	End-December 2008	

ATTACHMENT II—BENIN: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 19, 2007

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:

(a). As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, that 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.

(b). **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. Ceiling on Net Domestic Financing of the Government

Definition

4. Net domestic financing of the government is defined as the sum of (i) net bank credit to the government, as defined below, and (ii) net nonbank financing of the government, including the proceeds from the sale of government assets net of the cost of structural reforms to which these proceeds are earmarked, including government treasury bills issued in CFAF on the regional financial market of the WAEMU.

5. 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 the 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.

6. The net bank credit to the government and the net amount of government treasury bills and bonds issued in CFAF in the regional financial market of the WAEMU are calculated by the BCEAO, and nonbank financing is calculated by the Beninese Treasury, whose figures are those deemed valid in the context of the program.

7. The ceiling on the net domestic financing of the government will be adjusted if disbursement of external budgetary assistance (excluding IMF financing and HIPC assistance) net of debt service obligations (excluding IMF repayment obligations) and

payments of arrears, exceed or fall short of program forecasts. In the event of disbursement in larger than programmed amounts, the ceiling will be adjusted downward pro tanto by the excess disbursement, unless they are used to absorb domestic arrears. In contrast, if at the end of each quarter disbursements are less than the programmed amounts, the ceiling will be raised pro tanto by the amount of the shortfalls up to the limit (on a noncumulative basis) of CFAF 4.5 billion at end-June 2007, CFAF 10 billion at end-September 2007, and CFAF 18 billion at end-December 2007. The amount of external budgetary assistance provided is calculated from end-March 2007 onward. 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) and the Multilateral Debt Relief Initiative (MDRI)).

Performance criteria and indicators

8. The ceiling on net domestic financing of the government is established as follows: CFAF 5.0 billion at end-September 2007, CFAF -38.8 billion at end December 2007, CFAF -32.1 billion at end-March 2008, and CFAF -35.4 billion at end-June 2008. The ceiling is an indicative target as at end-September 2007 and end-March 2008, and a performance criterion as at end-December 2007 and end-June 2008.

Reporting requirement

9. Detailed data on domestic financing 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. Narrow Primary Fiscal Balance

Definition

10. The narrow primary fiscal balance is defined as the difference between total budgetary revenues (tax and nontax) and the budgetary expenses, less interests on the debt and capital expenditure financed by foreign grants and net loans.

Performance criterion

11. The ceiling on the narrow primary fiscal balance is established as follows: a surplus not lower than CFAF 10.7 billion at end-September, a surplus not lower than CFAF 26.0 billion at end-December 2007, a surplus not lower than CFAF 41.5 billion at end March-2008, a surplus not lower than CFAF 49.2 billion at end-June 2008. The ceiling is an indicative target as at end-September 2007 and end-March 2008, and a performance criterion as at end-December 2007 and end-June 2008.

Reporting requirement

12. Provisional data on the narrow primary fiscal balance, including the data generated by the computerized budget management system (SIGFIP), 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. Accumulation of New Domestic Payments Arrears on Government Obligations

Definition

13. Domestic payments arrears on government obligations are defined as outstanding debt owed by the government to residents due following the expiration of a 90-day grace period, unless specified otherwise, but not paid, and any financial obligation of the government verified as such by the government (including any government debt). The Caisse Autonome d'Amortissement (CAA-the government debt management agency) and the Treasury keep and update the inventory of domestic debt arrears on government obligations and maintain records of their payments.

Performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears on government debt. For obligations other than government debt, the government undertakes not to accumulate arrears beyond six months. The non accumulation of domestic payments arrears will be monitored on a continuous basis throughout the program period.

Reporting requirement

15. Data on outstanding balance, accumulation, and repayment of domestic payments arrears on government obligations will be provided monthly within eight weeks following the end of each month.

D. Nonaccumulation of External Public Payments Arrears

Definition

16. External public payments arrears are defined as the sum of payments owed to non residents due and not paid on debt of the government and on external debt guaranteed by the government. The definition of "debt" provided in paragraph 3 applies here.

Performance criterion

17. 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 public payments arrears will be monitored on a continuous basis throughout the program period.

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

Definition

18. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), but also to commitments contracted or guaranteed (including lease-purchase agreements) for which no value has yet been received. The external debt excludes treasury bills and bonds issued in CFAF on the regional financial market of the West African Economic and Monetary Union.

19. 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

20. Nonconcessional external borrowing and guaranteeing will be zero throughout the 2007 program.

Reporting requirement

21. 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.

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

Definition

22. The definitions in paragraphs 18 and 19 also apply to this performance criterion.

23. 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

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

25. As of December 31, 2006, the government of Benin has no short-term external debt.

II. QUANTITATIVE INDICATORS

A. Floor on Government's Revenues

Definition

26. Government revenues are defined as those that appear in the government's financial operations table (TOFE).

Indicative targets

27. Indicative targets for total government revenues are set as follows: CFAF 323.1 billion at end-September, CFAF 504.9 billion at end-December 2007, CFAF 132.1 billion at end March-2008, CFAF 261.3 billion at end-June 2008. The target is an indicative as at end-September 2007 and end-March 2008, and a performance criterion as at end-December 2007 and end-June 2008 (cumulative since end-December 2006 for criteria set in 2007 and cumulative since end-December 2007 for criteria set in 2008).

Reporting requirement

28. 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.

B. Ceiling on the Wage Bill

Definition

29. The wage bill includes all public expenditure on wages, bonuses, and other benefit or allowances granted civil servants employed by the government, the military and other security forces, and includes expenditure with respect to special contracts and other permanent or temporary employment with the government. The wage bill, therefore, excludes the salaries related to projects financed by foreign donors as well as the transfers related to the salaries of the teachers at the level of local municipalities.

Indicative targets

30. The quantitative benchmarks are defined as cumulative amounts after end-December 2006 for criteria set in 2007 and after end-December 2007 for criteria set in 2008. The civil service wage bill quarterly ceilings are CFAF 110.3 billion at end-September 2007, CFAF 148.3 billion at end-December 2007, CFAF 36.0 billion at end March-2008, and CFAF 76.0 billion at end-June 2008 (Staff report, Table 4 and MEFP, Table 1).

Reporting requirement

31. The government shall report the wage bill to IMF staff each month in the context of the TOFE.

IV. Structural Benchmarks

32. The government will complete the following actions:

- Completion of a study (and related action plan) updating the customs reform agenda;
- Audit of public finance information management systems (SIGFIP, ASTER and WMONEY) ;
- Implementation of a single taxpayer identification number ;
- Completion of a strategy for reform of the civil service pension fund (FNRB) ;
- Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices ;
- Completion of a strategy to improve public finance management.
- Involvement of external expertise in "Port Autonome de Cotonou" management.
- Completion of a new cotton sector reform strategy.

VII. Other Data Requirements for Program Monitoring

C. Public Finance

33. 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 4 weeks of the end of each quarter.

D. Monetary Sector

34. The government will provide to the Fund the following data on a monthly basis 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;

- the standard bank supervision indicators for banks, as well as those for nonbank financial institutions and for individual institutions, as needed.

E. External Sector

35. The government will provide to the Fund the following data within 12 weeks of the end of each quarter:

- Export and import price and volume data;

- Other balance of payments data, including data on services, private transfers, official transfers, and capital account transactions.

F. Real Sector

36. The government will provide to the Fund:

- 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.

G. Structural Reforms and Other Data Requirements

28. The government will provide to the Fund:

- Documentation of all decisions, laws, decrees, orders, and circulars undertaken by the government pertaining to the economy of Benin will be submitted within ten days of publication;

- All studies and research papers related to the economy of Benin will be submitted within two weeks of publication.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

BENIN

Joint IMF/World Bank Debt Sustainability Analysis 2007[1]

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Robert J. Corker and Anthony Boote (IMF) and
Brian Pinto and Sudhir Shetty (IDA)

December 20, 2007

Benin's risk of external debt distress is moderate*. All external debt indicators in the baseline scenario are far below the relevant policy-dependent indicative thresholds. However, the NPV of debt-to-export threshold is breached under scenarios incorporating lower growth, more volatile cotton production and less generous financing terms. The fiscal sustainability analysis confirms these results and highlights concerns about the fiscal cost of large domestic borrowing with high interest rates and shorter maturities. The authorities could reduce the risks associated with this moderate rating and safeguard debt sustainability through sustained efforts to continue structural reforms (including measures to spur private sector participation in development), address absorption constraints, and pursue prudent debt management policies*.

I. Introduction

1. This note, which updates the November 2006 DSA (Country Report 07/6), projects a lower debt-to-GDP ratio at the end of 2007 than in the 2006 exercise, reflecting three main

[1] Prepared jointly by the IMF and World Bank staffs using the Debt Sustainability Framework for low-income countries. The analysis is based on Beninese authorities' public debt management agency (*Caisse Autonôme d'Amortissement)* debt database and on IMF and World Bank staff estimates.

factors: (i) the full impact of the Multilateral Debt Relief Initiative (MDRI) from the World Bank (US$664 million, against an earlier estimate of US$632 million) and the African Development Bank (US$364 million against US$296 million); (ii) the 2007 cancellation of Benin's bilateral debt both to China (US$23.2 million) and Russia (US$11.6 million); and (iii) the addition of two publicly guaranteed commercial loans totaling US$56.6 million (Text table 1).

Text table 1. Benin: Differences Underpining the DSA 2006 and 2007
(Percent, as of end-2006)

	2007 DSA
Debt-to-GDP ratio	12.0
2006 DSA	13.0
Update of MDRI relief 1/	-1.6
Other bilateral cancellations 2/	-0.6
Debt guarantees 3/	1.2

Source: Beninese authorities and staff estimates.

1/ Effective contribution of IDA and ADF.
2/ Additional cancellations from China and Russia.
3/ The 2007 DSA integrates commercial debt that is publicly guaranteed.

2. Recent debt relief—under the Heavily Indebted Poor Countries Initiative in 2003 and MDRI in 2006—have greatly reduced Benin's debt stock and notably changed its structure. The external public debt-to-GDP ratio fell to 12 percent in 2006, from about 59 percent in 2001 (before HIPC relief). Debt to Paris Club creditors (including Russia) has been cancelled. While the combined share of commitments to the three major multilateral creditors (the IDA, AfDB, and the IMF) has declined from about 71 percent to 36 percent, the portion of debt to other multilateral creditors has risen to 44 percent, from 13 percent before HIPC/MDRI.[2]

[2] Other multilateral institutions include the West African Development Bank (14.8 percent of total debt), the Islamic Development Bank (8.8 percent of total debt), the European Investment Bank (5.1 percent of total), and the Arab Bank for Economic Development in Africa (0.6 percent of total).

Text table 2. Benin: External Public and Publicly Guaranteed Debt Structure
(As of end-2006)

	Before HIPC relief		After HIPC relief 1/		Post MDRI		
	Millions of US$	Share in percent	Millions of US$	Share in percent	Millions of US$	Share in percent	Percent of GDP
Multilateral 3/	1,731.5	84.5	1,539.8	93.2	454.8	80.1	9.6
World Bank	863.3	42.1	779.7	47.2	115.6	20.4	2.4
African Fund for Development	520.3	25.4	451.4	27.3	87.3	15.4	1.8
IMF	65.2	3.2	59.4	3.6	2.7	0.5	0.1
Others	282.8	13.8	249.3	15.1	249.3	43.9	5.2
Bilateral	260.7	12.7	56.1	3.4	56.1	9.9	1.2
Paris Club	189.0	9.2	0.0	0.0	0.0	0.0	0.0
Non-Paris Club 2/	71.8	3.5	56.1	3.4	56.1	9.9	1.2
Commercial	56.6	2.8	56.6	3.4	56.6	10.0	1.2
Total	2,048.9	100.0	1,652.5	100.0	567.5	100.0	12.0

Source: Beninese authorities.
1/ At end-2006 with HIPC relief obtained since July 2000.
2/ All non-Paris Club creditors have provided comparable treatments except Libya, Nigeria and the DRC.

II. External Debt Sustainability Analysis

A. Baseline Scenario: 2007–27[3]

3. The baseline macroeconomic scenario projects a gradual strengthening of real GDP growth, a steady increase in private investment, and a stable inflation outlook. Growth is projected to pick up from 4.2 percent in 2007, to 5.7 percent by 2010 (in CFA francs, see Text table 3), and average 6 percent annually in 2011–27. The projection assumes that key structural reforms and infrastructure improvements are gradually carried out (Country Report 07/213). The cotton industry is expected to reach its full ginning capacity of 600,000 tons by 2027, and long-run growth, underpinned by private-sector-led economic diversification, should be sustained. Private investment is projected to grow a steady 0.1–0.2 percentage point of GDP a year, reaching 17.3 percent of GDP by 2027, up from 13.6 percent in 2006. Inflation should stay below the 3 percent ceiling set by the West African Economic and Monetary Union's (WAEMU).

[3] See Box 1 for more details on the baseline assumptions.

Text table 3. Benin: 2006 and 2007 DSA Comparative Assumptions
(Percent, unless otherwise indicated)

	DSA 2007					DSA 2006				
	2006	2007	2008	2009	2010-27	2006	2007	2008	2009	2010-26
	Act.	Projection				Projection				
Real GDP growth (CFA)	3.8	4.2	5.4	5.7	6.0	4.5	5.1	5.5	5.5	5.5
PRSP baseline real GDP growth	3.8	5.3	7.0	7.5	10.1	4.5	6.0	6.8	7.5	10.2
GDP deflator (CFA)	3.1	3.0	2.8	2.8	2.9	2.6	2.4	2.4	2.4	2.4
Real export growth	-13.8	18.1	13.3	5.4	9.6	0.7	21.3	10.2	15.2	11.9
Fiscal revenue (percent of GDP)	16.8	19.0	18.5	18.8	19.1	16.5	17.2	18.0	18.1	18.9

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

4. The 2007 DSA baseline is built on an updated macroeconomic scenario. Real GDP growth, projected to be 1.4 percentage point above Benin's historical average, assumes that key structural reforms and infrastructure improvements are gradually carried out (Country Report 07/213). Also, with more ambitious capacity increases at the Port of Cotonou, and more sustained public works activities than earlier anticipated, baseline long-term growth is 0.5 percentage-point higher than assumed in the 2006 DSA.

Box 1. Benin: Baseline Scenario—Macroeconomic Assumptions for 2006–27
(Estimates and projections are in CFA franc terms, unless otherwise indicated)

Annual real GDP is projected to rise by 5.4 percent in 2007–12 and by 6 percent in 2013–27 (see paragraph 3 and 4 above, for more details).

Inflation, as measured by the consumer price index, is projected to fall gradually from a historical average of 3.2 percent in 2000–06, to below 3 percent thereafter, in line with the relevant WAEMU convergence criterion.

Fiscal performance is projected to remain strong, reinforced by debt relief savings because of strong revenue collection and prudent expenditure management. The overall fiscal deficit, excluding grants, is projected to remain below 5 percent of GDP.

Against a background of improving terms of trade and strengthened domestic policy and reform implementation, **the trade deficit** would narrow marginally, from 10 percent in 2006 to 9 percent by 2027.

The **financing gap** is expected to decline gradually from 1.5 percent of GDP in 2008 to 1.2 percent in 2010 and onward, 80 percent of which is assumed to be covered by **grants**. Furthermore, **debt-creating flows** that include both identified projects and program loans are projected to average 3 percent of GDP.

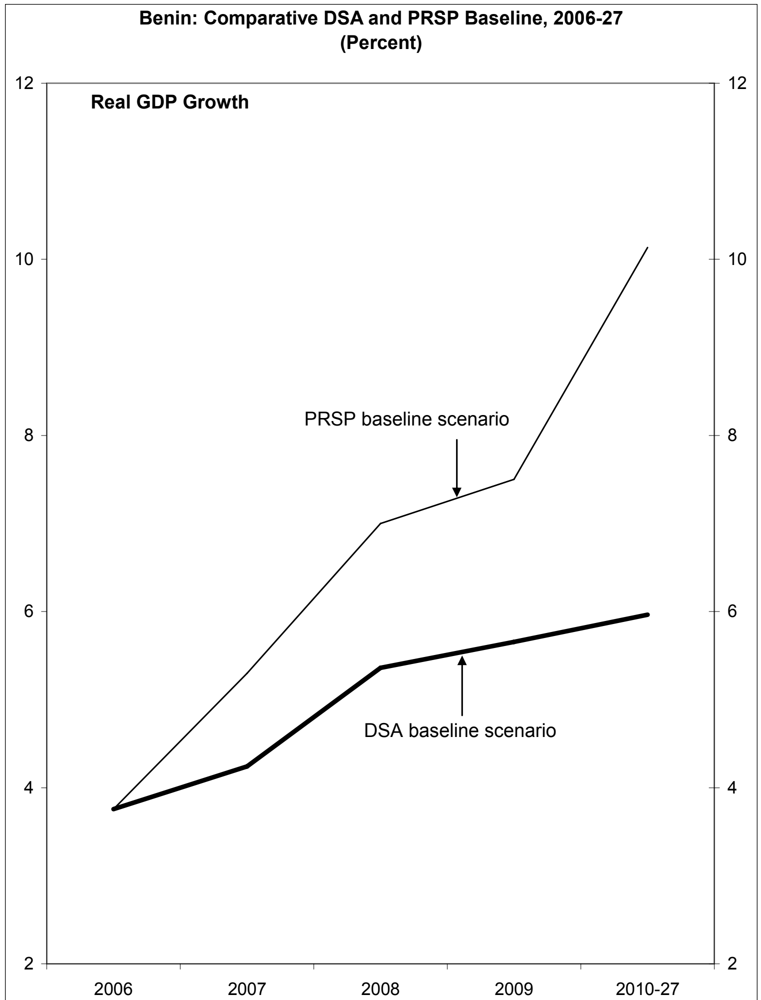
As a result, new public borrowing (residual financing gap plus debt-creating flows) is projected to decline from 2.9 percent of GDP in 2007 to 2.4 percent thereafter. Post-MDRI distribution of new loans among creditors would be as indicated in the box table below. With a projected average maturity of 31 years, a grace period of 6 years, and an interest rate of 2.4 percent; and assuming an average discount rate of 5 percent, the new loans are estimated to have an average grant element of about 30.7 percent.

Box table. Benin: Assumed Shares of New Loans by Creditor, 2006–27 1/
(Percent)

	2006	2007	2008	2009	2010	2011-27
Multilaterals	80.1	78.3	76.5	74.7	72.9	73.9
IMF	0.5	0.5	0.5	0.5	0.5	0.5
IDA	20.4	20.6	20.8	21.0	21.2	22.2
Others	59.3	57.3	55.3	53.3	51.3	51.3
Official Bilaterals	9.9	12.2	14.5	16.8	19.1	22.6
Paris Club	0.0	2.3	4.6	6.9	9.2	12.7
Non-Paris Club	9.9	9.9	9.9	9.9	9.9	9.9
Commercial	10.0	9.5	9.0	8.5	8.0	3.5

Source: Staff estimates and projections as of 2007.
1/ Projection as of 2007.

5. The baseline (average) growth scenario is realistic given the country's structural constraints. It assumes full implementation of medium-term structural reforms with moderate gains in long-run growth (2011–27). Growth would not deviate considerably from recent trends owing to residual institutional and structural weaknesses (e.g., in the cotton sector, the judiciary, and the business environment). Scarcity of land and modest growth of private investment are also likely to limit long-run growth.



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

6. The scenario assumes continued strong revenue collection and further budget consolidation. Public expenditure is projected to increase steadily by 0.5 percentage point a year, to about 23 percent of GDP in 2010, from 19 percent in 2007. Higher revenue would partially help meet the projected scaling-up of public expenditure, and the average overall fiscal deficit, excluding grants, would stay below 5 percent of GDP.

B. External Debt Sustainability[4]

7. The DSA results point to a moderate risk of debt distress for Benin. As shown in Appendix Figure 1, all debt indicators remain well below their respective policy-dependent

[4] The latest World Bank Country Policy and Institutional Assessment classifies Benin as a "medium performer," which puts the debt burden thresholds for the country are as follows: (i) debt to export of 150 percent (NPV); (ii) debt to GDP of 40 percent (NPV); (iii) debt to fiscal revenue of 250 percent (NPV); (iv) debt service to export of 20 percent; and (v) debt service to fiscal revenue of 30 percent.

thresholds under the baseline scenario. However, in bound tests, the threshold for the NPV of the external debt-to-exports ratio is breached when (i) real GDP grows at its historically low average rate (which could happen if reforms either lag or cease); (ii) cotton production and exports are lower than in the baseline; and (iii) nonconcessional borrowing is undertaken. Furthermore, relevant stress tests indicate that nonconcessional borrowing or exchange rate shocks could cause debt ratios to approach, but not exceed, some of the indicative debt thresholds. These findings are consistent with the staffs' 2006 DSA.

Text table 4. Benin: External Debt Indicators after MDRI, 2006–27
(Percent, unless otherwise indicated)

	Indicative thresholds	2006 Act.	Baseline Scenario 2007	2008	2009	2010	2011–27 1/
			Projection				
NPV of debt to GDP	40.0	8.8	9.2	9.7	10.2	10.6	13.2
Debt service to revenue	30.0	3.8	3.6	3.7	3.4	3.5	4.4
NPV of debt to revenue	250.0	47.9	48.6	52.5	54.3	55.3	68.7
Debt service to exports	20.0	6.3	6.0	5.5	5.3	5.5	6.5
NPV of debt to exports	150.0	75.2	80.8	79.6	84.3	88.8	101.6
Memorandum items:							
Debt to GDP (post-HIPC)		36.0	34.1	34.5	35.4	35.9	34.3
Debt to GDP (post-MDRI)		12.0	13.6	14.2	14.9	15.4	18.4

Sources: Beninese authorities; and IMF staff estimates and projections.
1/ Simple average.

III. Fiscal Sustainability Analysis[5]

8. Domestic borrowing—notwithstanding the potential space created by debt relief and the easing of WAEMU restrictions on borrowing on the regional financial market—is expected to increase at a modest pace. This reflects the country's broadly favorable medium-term fiscal prospects as well as delays in addressing absorption constraints. Domestic debt rose markedly in 2006–07, from about 0.6 percent to 4.0 percent of GDP, largely because of the central government's issue of treasury bonds on the regional financial market, which amounted to CFAF 96.1 billion (3.7 percent of GDP).[6] By 2027, domestic debt is projected to increase to 10 percent of GDP (see Appendix Figure 2).

[5] Domestic debt (including borrowing from the WAEMU regional market) is likely to become a policy issue requiring close monitoring. Staff projects such debt to rise to 9–10 percent of GDP by 2027, from about 3.5 percent of GDP in 2007.

[6] This concerns all WAEMU residents who hold Beninese central government Treasury bonds or bills.

9. The fiscal cost associated with accelerated domestic borrowing could eventually test budget sustainability, as is the case under a scenario where reforms stagnate, domestic borrowing at high interest rate and shorter maturities surges, or institutional weaknesses in the cotton sector continue.

10. Continued fiscal discipline would help Benin weather economic shocks and keep its public debt sustainable (see Box 2). Even with good fiscal performance, excessive nonconcessional borrowing and other persistent shocks could require Benin to make fiscal adjustments in the future to keep debt dynamics from deteriorating severely. The average fiscal saving required to keep debt sustainable in alternative DSA scenarios are as follows:

- In the *increasing domestic(including regional) borrowing* scenario, the average fiscal saving required to keep the debt ratio from rising (relative to the stabilizing primary balance scenario) is about 3.3 percent of GDP a year.

- In the *no reform* (status quo) scenario, Benin would need fiscal saving of 3.1 percent of GDP on average a year.

- In the "*instability in the cotton sector*" shock, the required savings is estimated at 3.5 percent of GDP per year.

Box 2. Debt Dynamics and Fiscal Stance

We use standard debt dynamics equations that link the fiscal stance to the debt ratio to answer the following two questions (see Appendix C for more detail):

(i) What ratio of primary fiscal surplus is required to stabilize the public debt (ratio to GDP) at its base year level if policy remains unchanged?

(ii) What primary surplus is associated with (a) a no-reform scenario? (b) a sharp increase in a government T-bill-financed fiscal deficit issued in the regional market? or (c) a non-broad-based growth scenario that assumes continued volatility in both cotton production and international cotton prices.

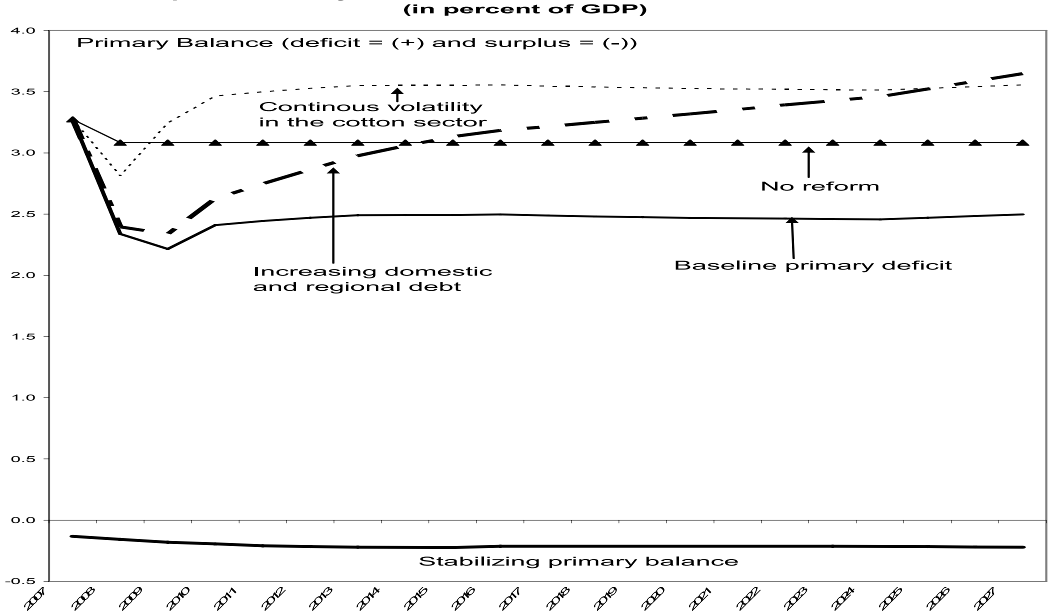
The figure below suggests that:

- An average fiscal surplus of 0.2 percent of GDP (per year in 2007-27) is required to bring the ratio of public debt–to-GDP to its 2006 level of 14.7 percent.

- The primary deficit is higher in the no-reform scenario than in the baseline; the weak growth and cotton sector performance, and increasing domestic debt scenarios would result in a much bigger fiscal deficit.

- The fiscal saving required to keep the debt ratio from rising relative to the stabilizing primary balance scenario ranges from 3.1 to 3.5 percent of GDP a year.

Box Figure. Benin:Primary Balance Under Three Shock Scenarios and Required Primary Balance to Stabilize The Debt Ratio, 2007-27 (in percent of GDP)



Source: IMF staff projections and simulations.

IV. CONCLUSION

11. IMF and World Bank staffs conclude that Benin faces a moderate risk of debt distress. All external debt indicators in the baseline scenario are far below the relevant policy-dependent indicative thresholds. However, the NPV of debt-to-export (indicative) threshold is breached under some alternative scenario and bound tests.

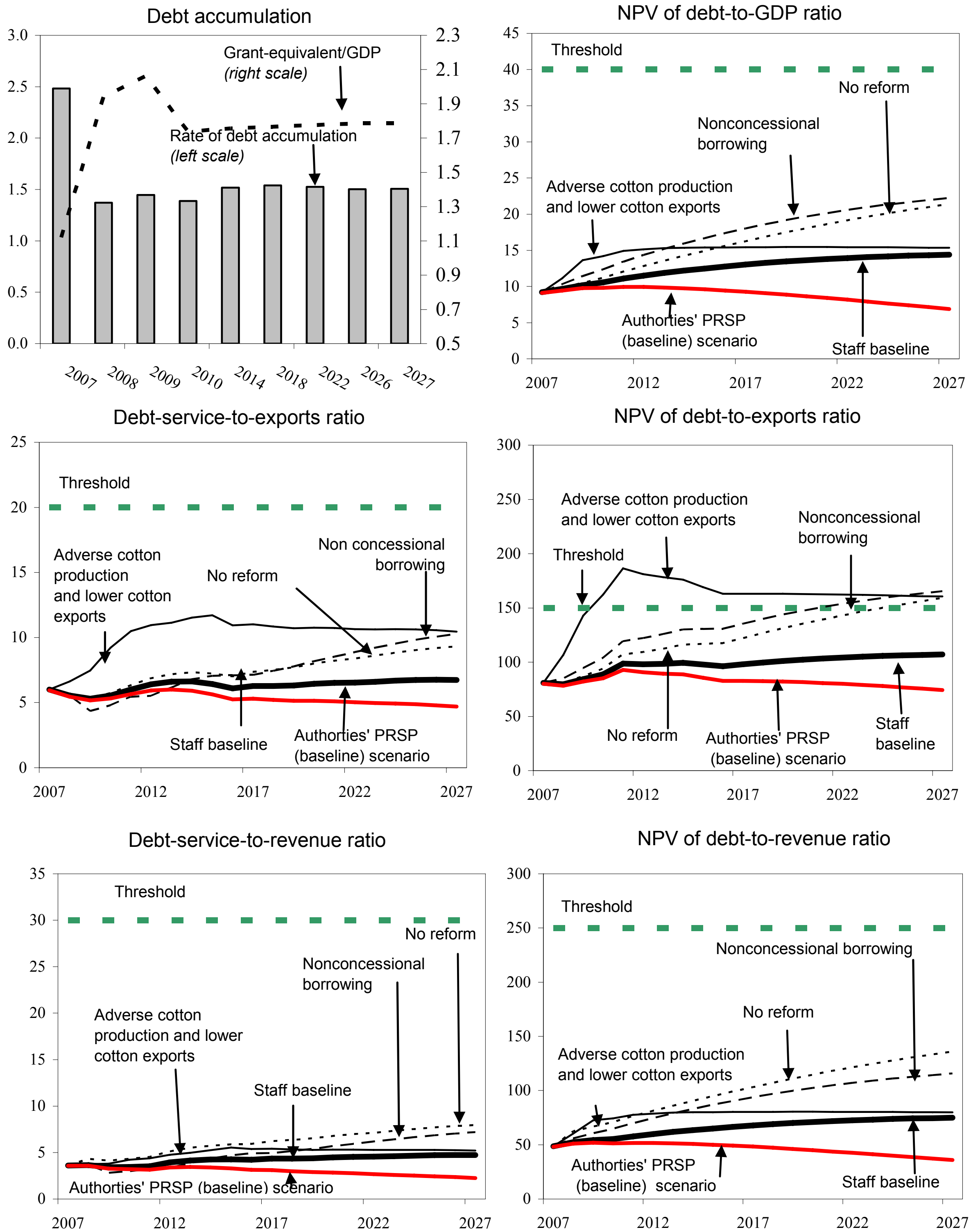
12. The key risks driving the moderate rating are as follows: (i) weak growth; (ii) cotton production and exports being lower than in the baseline; and (ii) nonconcessional borrowing. The authorities could reduce these risks and safeguard debt sustainability through sustained efforts to continue structural reforms (including measures to spur private sector participation in development), address absorption constraints, and pursue prudent debt management policies.

13. Excessive domestic borrowing at high interest rates and shorter maturities would require Benin to make substantial fiscal adjustment down the road to keep debt dynamics from deteriorating. Continued fiscal consolidation and fiscal discipline would, therefore, reduce the potential for fiscal imbalances that put macroeconomic stability at risk.

14. The Beninese authorities concurred broadly with the DSA findings. While recognizing the need to refrain from nonconcessional borrowing, the authorities pointed to difficulties in mobilizing grant and concessional resources, which in their view could slow Benin’s progress toward the Millennium Development Goals.

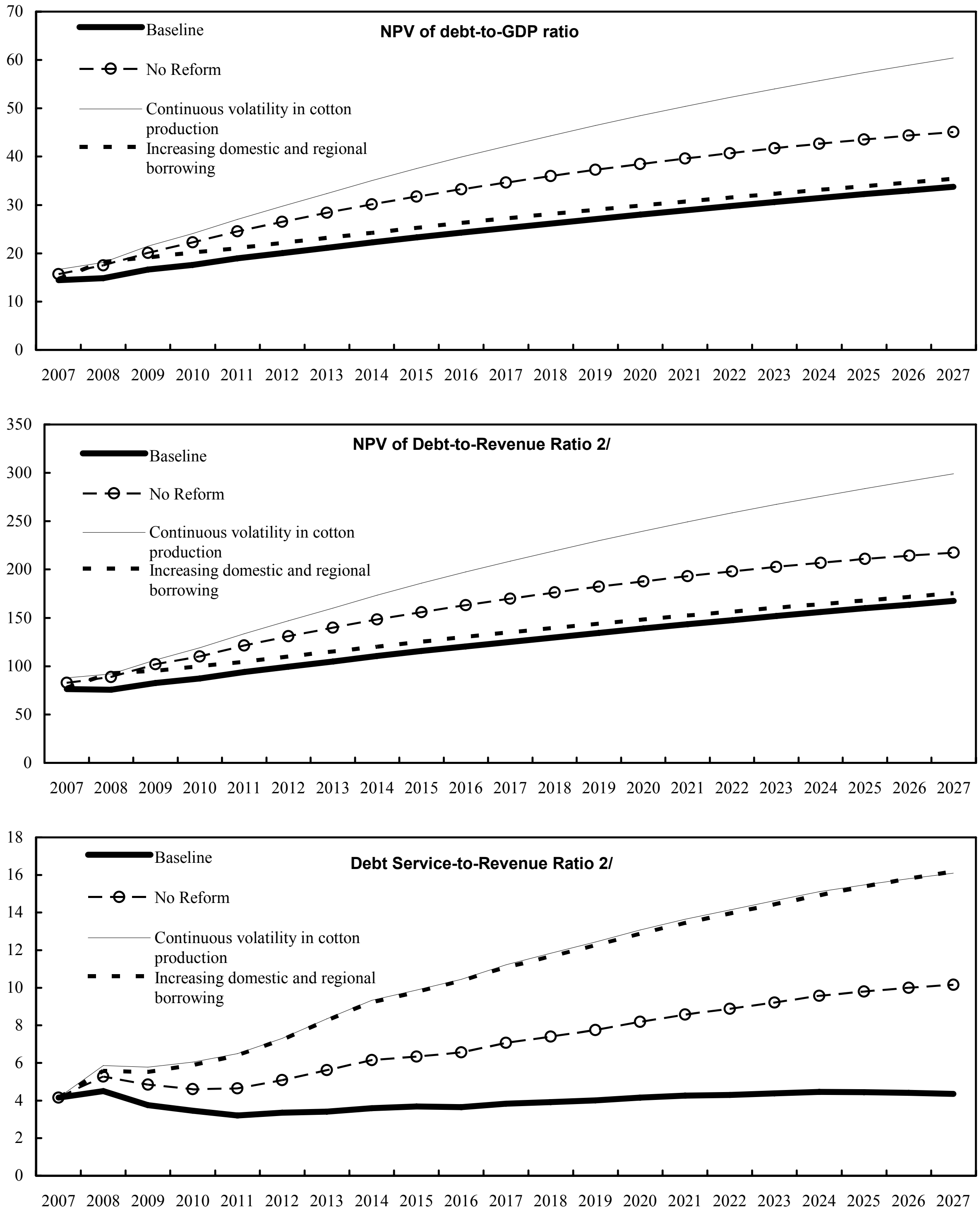
Appendix A: Figures

Appendix Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007–27



Sources: IMF and World Bank staff projections and simulations.

Appendix Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2007–27 1/



Sources: IMF and World Bank staff projections and simulations.

1/ Most extreme stress test is that which yields highest ratio in 2017.

2/ Revenue including grants.

Appendix Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2004–27 1/
(Percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal) 1/	33.8	36.9	12.7			14.2	14.7	15.3	15.7	16.2	16.6		18.3	19.8	
Of which: Public and publicly guaranteed (PPG)	33.8	36.9	12.0			13.6	14.2	14.9	15.4	16.1	16.5		18.3	19.8	
Change in external debt	-2.7	3.1	-24.2			1.5	0.5	0.6	0.4	0.5	0.4		0.3	0.1	
Identified net debt-creating flows	1.6	1.0	1.3			3.4	4.3	4.2	4.0	3.9	3.8		3.5	2.8	
Non-interest current account deficit	6.8	5.6	5.9	6.4	1.1	5.4	5.8	5.7	5.7	5.6	5.6		5.4	5.2	5.4
Deficit in balance of goods and services	12.2	9.8	11.5			11.5	11.0	10.7	10.6	10.6	10.6		10.4	10.2	
Exports	14.3	13.0	10.7			11.4	12.2	12.1	11.9	11.3	11.8		13.3	13.5	
Imports	26.6	22.8	22.2			22.9	23.1	22.8	22.5	21.9	22.3		23.8	23.7	
Net current transfers (negative = inflow)	-6.0	-4.8	-5.7	-5.7	0.6	-6.3	-5.4	-5.3	-5.2	-5.2	-5.2		-5.2	-5.2	-5.2
Of which: Official	-3.2	-2.0	-2.5			-3.1	-2.4	-2.3	-2.3	-2.3	-2.4		-2.6	-3.2	
Other current account flows (negative = net inflow)	0.5	0.5	0.1			0.2	0.2	0.2	0.3	0.2	0.2		0.2	0.2	
Net FDI (negative = inflow)	-1.2	-2.2	-2.3	-1.5	0.8	-1.1	-0.9	-0.9	-1.0	-1.1	-1.1		-1.2	-1.5	-1.3
Endogenous debt dynamics 2/	-4.0	-2.4	-2.3			-0.9	-0.5	-0.5	-0.6	-0.7	-0.7		-0.8	-0.8	
Contribution from nominal interest rate	0.4	0.3	0.3			0.4	0.3	0.3	0.3	0.3	0.3		0.4	0.4	
Contribution from real GDP growth	-4.3	-1.0	-1.6			-1.2	-0.8	-0.8	-0.9	-1.0	-1.0		-1.1	-1.2	
Contribution from price and exchange rate changes	-0.1	-1.7	-1.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	-4.3	2.2	-25.5			-1.9	-3.8	-3.7	-3.6	-3.4	-3.4	-3.3	-3.2	-2.8	-3.1
Of which: Exceptional financing	-1.7	-0.9	-2.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	8.8			9.9	10.2	10.6	10.8	11.3	11.6		13.0	14.4	
In percent of exports	...	...	82.2			86.6	83.7	87.3	90.9	100.0	98.6		97.9	107.1	
NPV of PPG external debt	...	...	8.1			9.2	9.7	10.2	10.6	11.1	11.5		13.0	14.4	
In percent of exports	...	...	75.2			80.8	79.6	84.3	88.8	98.6	98.0		97.9	107.1	
In percent of government revenues	...	...	47.9			48.6	52.5	54.3	55.3	57.8	60.0		67.8	75.0	
Debt service-to-exports ratio (percent)	10.6	8.9	6.3			6.3	6.7	6.3	6.4	6.8	7.1		6.3	6.7	
PPG debt service-to-exports ratio (percent)	10.6	8.9	5.9			6.0	5.5	5.3	5.5	6.0	6.4		6.3	6.7	
PPG debt service-to-revenue ratio (percent)	9.2	7.0	3.8			3.6	3.7	3.4	3.5	3.5	3.9		4.3	4.7	
Total gross financing need (billions of U.S. dollars)	0.3	0.2	0.2			0.3	0.3	0.4	0.4	0.4	0.5		0.7	1.6	
Non-interest current account deficit that stabilizes debt ratio	9.5	2.4	30.1			3.8	5.3	5.1	5.3	5.1	5.2		5.2	5.1	
Key macroeconomic assumptions															
Real GDP growth (percent, U.S. dollar)	13.4	3.1	4.6	4.7	9.6	11.1	6.3	6.2	6.4	6.7	6.7	7.2	6.8	6.9	6.8
GDP deflator in US dollar terms (change in percent)	0.3	5.4	3.1	2.9	1.8	3.0	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Effective interest rate (percent) 5/	1.3	1.1	1.0	1.4	0.3	3.2	2.3	2.2	2.1	2.1	2.1	2.3	2.1	2.2	2.1
Growth of exports of G&S (U.S. dollar terms, percent)	19.2	-1.6	-11.1	2.8	14.5	21.8	16.6	8.6	7.8	3.7	14.7	12.2	10.0	10.1	10.9
Growth of imports of G&S (U.S. dollar terms, percent)	13.9	-6.8	5.2	5.7	9.8	17.9	10.3	7.7	8.2	6.5	12.2	10.5	9.8	9.9	10.3
Grant element of new public sector borrowing (percent)	...	...	...	...	...	29.8	29.7	29.7	29.7	30.1	30.2	29.9	30.7	31.6	31.0
Aid flows (billions of U.S. dollars) 7/	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.4	
Of which: Grants	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.4	
Of which: Concessional loans	0.6	0.7	0.8			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (percent of GDP) 8/	...	...	...			1.1	1.9	2.1	1.7	1.8	1.8		1.8	1.8	1.8
Grant-equivalent financing (percent of external financing) 8/	...	...	...			29.8	52.8	54.2	51.0	51.3	51.4		51.7	52.3	51.9
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	4.1	4.4	4.7			5.4	5.9	6.5	7.1	7.8	8.6		13.7	35.2	
(NPVt-NPVt-1)/GDPt-1 (percent)						2.5	1.4	1.4	1.4	1.6	1.5	1.6	1.5	1.5	1.5

Source: Staff simulations.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments. Projections also include contribution from price and exchange rate changes.

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

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

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

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

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

Appendix Table 2. Benin: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(Percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	9.2	9.7	10.2	10.6	11.1	11.5	13.0	14.4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	9.2	9.8	10.5	11.2	12.1	12.8	16.3	21.4
A2. New public sector loans on less favorable terms in 2008-27 2/	9.2	10.3	11.4	12.4	13.4	14.4	18.0	22.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	9.2	10.7	12.3	14.1	16.4	18.8	31.6	35.0
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	9.2	11.1	13.6	14.2	14.9	15.1	15.4	15.4
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008-09	9.2	9.8	10.5	11.1	11.9	12.3	13.9	15.4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	9.2	10.0	10.7	11.3	12.1	12.5	13.7	14.6
B5. Combination of B1-B4 using one-half standard deviation shocks	9.2	11.8	15.6	16.6	18.0	18.3	18.7	18.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	9.2	13.7	14.4	14.9	15.7	16.3	18.4	20.3
NPV of debt-to-exports ratio								
Baseline	80.8	79.6	84.3	88.8	98.6	98.0	97.9	107.1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	80.8	80.9	87.0	94.0	107.2	109.2	122.3	159.3
A2. New public sector loans on less favorable terms in 2007-26 2/	80.8	84.8	94.5	103.9	119.4	122.1	135.5	165.3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	80.8	79.6	84.3	88.8	98.6	98.0	97.9	107.1
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	80.8	106.7	142.7	162.4	186.6	181.1	163.0	160.5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008-09	80.8	79.6	84.3	88.8	98.6	98.0	97.9	107.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	80.8	82.3	88.5	95.1	107.5	106.0	102.7	108.6
B5. Combination of B1-B4 using one-half standard deviation shocks	80.8	110.6	154.9	176.3	203.0	197.5	178.7	175.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	80.8	79.6	84.3	88.8	98.6	98.0	97.9	107.1
NPV of debt-to-revenue ratio								
Baseline	48.6	52.5	54.3	55.3	57.8	60.0	67.8	75.0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	48.6	62.5	66.8	71.1	76.6	81.5	103.3	136.0
A2. New public sector loans on less favorable terms in 2007-26 2/	48.6	55.9	60.9	64.7	69.9	74.8	93.8	115.8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	48.6	57.7	65.7	73.7	85.1	97.6	164.7	182.2
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	48.6	60.3	72.6	74.2	77.8	78.8	80.3	79.9
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008-09	48.6	53.3	56.1	58.2	61.8	64.2	72.5	80.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	48.6	54.2	57.0	59.2	63.0	64.9	71.1	76.1
B5. Combination of B1-B4 using one-half standard deviation shocks	48.6	64.1	82.9	87.0	93.7	95.2	97.5	96.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	48.6	74.1	76.6	78.1	81.6	84.7	95.7	105.9

Appendix Table 2 (Concluded). Benin: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(Percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
Debt service-to-exports ratio								
Baseline	6.0	5.5	5.3	5.5	6.0	6.4	6.3	6.7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	6.0	5.6	5.4	5.7	6.3	6.9	7.4	9.3
A2. New public sector loans on less favorable terms in 2008-27 2/	6.0	5.5	4.4	4.8	5.5	5.5	7.1	10.3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	6.0	5.5	5.3	5.5	6.0	6.4	6.3	6.7
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	6.0	6.6	7.5	9.2	10.5	11.0	11.0	10.5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008-09	6.0	5.5	5.3	5.5	6.0	6.4	6.3	6.7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	6.0	5.5	5.4	5.7	6.2	6.7	6.7	6.9
B5. Combination of B1-B4 using one-half standard deviation shocks	6.0	6.6	7.6	9.6	11.0	11.4	11.9	11.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	6.0	5.5	5.3	5.5	6.0	6.4	6.3	6.7
Debt service-to-revenue ratio								
Baseline	3.6	3.7	3.4	3.5	3.5	3.9	4.3	4.7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	3.6	4.3	4.2	4.3	4.5	5.1	6.2	8.0
A2. New public sector loans on less favorable terms in 2008-27 2/	3.6	3.7	2.8	3.0	3.2	3.4	4.9	7.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	3.6	4.0	4.1	4.6	5.2	6.4	10.6	11.5
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	3.6	3.7	3.8	4.2	4.4	4.8	5.4	5.2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008-09	3.6	3.7	3.5	3.6	3.8	4.2	4.7	5.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	3.6	3.7	3.5	3.5	3.6	4.1	4.6	4.8
B5. Combination of B1-B4 using one-half standard deviation shocks	3.6	3.8	4.1	4.8	5.1	5.5	6.5	6.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	3.6	5.2	4.8	4.9	5.0	5.5	6.1	6.7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1

Source: Staff projections and simulations.

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

Appendix Table 3. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004–27
(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2004	2005	2006	Historical Average 5/	Standard Deviation 5/	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt 1/	35.8	38.9	14.7			18.2	19.0	19.9	20.6	21.4	22.1		25.3	29.8	
Of which : Foreign-currency denominated	33.8	36.9	12.7			14.2	14.7	15.3	15.7	16.2	16.6		18.3	19.8	
Change in public sector debt	-2.7	3.1	-24.2			3.5	0.8	0.9	0.7	0.8	0.7		0.6	0.4	
Identified debt-creating flows	-0.6	6.3	-26.5			2.5	1.4	1.1	1.1	1.0	1.0		0.8	0.4	
Primary deficit	3.3	4.3	2.3	2.4	1.3	3.3	2.3	2.2	2.4	2.4	2.5	2.5	2.5	2.5	2.5
Revenue and grants	16.4	16.5	16.8			19.0	19.7	20.1	20.2	20.2	20.2		20.2	20.2	
Of which: grants	0.0	0.0	0.0			0.0	1.2	1.3	1.0	1.0	1.0		1.0	1.0	
Primary (noninterest) expenditure	19.8	20.8	19.1			22.2	22.0	22.3	22.6	22.6	22.6		22.6	22.7	
Automatic debt dynamics	-3.9	2.1	-5.8			-0.8	-0.9	-1.1	-1.3	-1.4	-1.5		-1.7	-2.1	
Contribution from interest rate/growth differential	-0.9	-2.1	-2.2			-0.6	-0.9	-1.1	-1.2	-1.3	-1.4		-1.6	-2.0	
Of which : contribution from average real interest rate	0.2	-1.1	-0.8			0.0	0.1	0.0	-0.1	-0.2	-0.2		-0.2	-0.3	
Of which : contribution from real GDP growth	-1.2	-1.0	-1.4			-0.6	-0.9	-1.0	-1.1	-1.2	-1.2		-1.4	-1.7	
Contribution from real exchange rate depreciation	-3.0	4.2	-3.6			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	-23.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-23.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-2.1	-3.2	2.3			1.1	-0.6	-0.2	-0.4	-0.2	-0.2		-0.2	0.0	
NPV of public sector debt	10.7	9.9	15.4			14.5	14.9	16.6	17.6	19.0	20.1		25.2	33.7	
Of which : foreign-currency denominated	8.7	36.9	12.7			9.2	9.7	10.2	10.6	11.1	11.5		13.0	14.4	
Of which : external	8.7	36.9	12.7			9.2	9.7	10.2	10.6	11.1	11.5		13.0	14.4	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.6	2.1	2.2			0.0	1.5	1.7	1.3	1.3	1.3		1.3	1.3	
NPV of public sector debt-to-revenue and grants ratio (percent)	64.9	59.7	91.7			76.3	75.6	82.6	87.3	94.1	99.5		125.1	167.4	
NPV of public sector debt-to-revenue ratio (percent)	64.9	59.7	91.7			76.3	80.5	88.5	92.0	99.2	104.8		131.8	176.4	
Of which : external 3/	52.7	223.2	75.6			48.6	52.5	54.3	55.3	58.0	60.2		68.1	75.3	
Debt service-to-revenue and grants ratio (percent) 4/	2.0	1.8	4.1			4.1	4.5	3.8	3.5	3.2	3.4		3.8	4.4	
Debt service-to-revenue ratio (percent) 4/	2.0	1.8	4.1			4.1	4.8	4.0	3.6	3.4	3.5		4.0	4.6	
Primary deficit that stabilizes the debt-to-GDP ratio	6.0	1.2	26.5			-0.3	1.5	1.4	1.7	1.6	1.8		1.9	2.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (percent)	3.1	2.9	3.8	4.4	1.1	4.2	5.4	5.7	5.7	6.0	6.0	5.5	6.0	6.0	6.0
Average nominal interest rate on forex debt (percent)	2.1	2.1	0.9	1.9	0.3	3.0	2.3	2.2	2.1	2.1	2.1	2.3	2.1	1.9	2.1
Average real interest rate on domestic currency debt (percent)	-21.2	-2.2	-2.6	-7.2	10.7	0.4	3.3	1.4	0.1	-0.9	-1.7	0.4	...	...	-2.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.3	13.1	-10.3	0.2	12.4	-1.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, percent)	0.3	5.4	3.1	2.9	1.8	3.0	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, percent)	1.8	8.3	-4.7	-79.3	271.6	21.3	4.3	7.2	6.9	6.1	6.1	8.7	5.9	6.0	6.0
Grant element of new external borrowing (percent)	...	...	...	…	…	29.8	29.7	29.7	29.7	30.1	30.2	29.9	30.7	31.6	...

Sources: Beninese authorities; and Fund staff estimates and projections.
1/ Public and publicly guaranteed debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Appendix Table 4. Benin: Sensitivity Analysis for Key Indicators of Public Debt, 2007–27

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	14	15	17	18	19	20	25	34
A. Alternative scenarios								
A1. No reform 1/	16	17	20	22	25	27	35	45
A2. Primary balance is unchanged from 2007	17	19	22	24	27	29	40	56
A3. Permanently lower GDP growth 2/	17	17	19	20	22	23	32	47
A4. Increasing domestic and regional borrowing 3/	15	18	19	20	21	22	27	35
B. Bound tests								
B1. Continuous volatility cotton sector 4/	17	18	21	24	27	30	42	60
B2. Primary balance is at hist aver. minus 1 std dev. in 2008–09	17	19	23	24	26	27	33	42
B3. Combination of B1-B2 using one-half standard deviation shocks	17	19	23	24	25	26	31	40
B4. One-time 30 percent real depreciation in 2008	17	21	22	23	24	25	30	40
B5. 10 percent of GDP increase in other debt-creating flows in 2008	17	21	21	21	21	22	22	24
NPV of Debt-to-Revenue Ratio 5/								
Baseline	76	76	83	87	94	99	125	167
A. Alternative scenarios								
A1. No reform 1/	83	89	102	110	121	131	170	218
A2. Primary balance is unchanged from 2007	88	94	107	119	132	144	198	279
A3. Permanently lower GDP growth 2/	88	87	93	99	108	116	157	235
A4. Increasing domestic and regional borrowing 3/	78	93	95	100	105	110	135	176
B. Bound tests								
B1. Continuous volatility cotton sector 4/	88	92	106	119	134	147	209	299
B2. Primary balance is at hist aver. minus 1 std dev. in 2008–09	88	99	116	121	127	133	162	208
B3. Combination of B1-B2 using one-half standard deviation shocks	88	97	113	117	123	129	155	199
B4. One-time 30 percent real depreciation in 2008	88	108	111	113	119	124	149	197
B5. 10 percent of GDP increase in other debt-creating flows in 2008	88	105	104	104	106	107	111	121
Debt Service-to-Revenue Ratio 5/								
Baseline	4	5	4	3	3	3	4	4
A. Alternative scenarios								
A1. No reform 1/	4	5	5	5	5	5	7	10
A2. Primary balance is unchanged from 2007	4	6	6	6	6	7	11	15
A3. Permanently lower GDP growth 2/	4	6	5	5	6	6	9	14
A4. Increasing domestic and regional borrowing 3/	4	6	6	6	6	7	11	16
B. Bound tests								
B1. Continuous volatility cotton sector 4/	4	6	6	6	6	7	11	16
B2. Primary balance is at hist aver. minus 1 std dev. in 2008–09	4	6	6	6	6	7	9	12
B3. Combination of B1-B2 using one- half standard deviation shocks	4	6	6	6	6	7	9	12
B4. One-time 30 percent real depreciation in 2008	4	6	6	6	6	7	10	14
B5. 10 percent of GDP increase in other debt-creating flows in 2008	4	6	8	8	8	9	11	13

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

1/ Assumes that real GDP growth and primary balance are at historical averages.
2/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
3/ Assumes increaing government T-bills-based-fiscal-deficit financing at regional level leading to an increasing share of domestic debt from 4 percent in 2007 to 16 percent by 2027.
4/ Assumes that real GDP growth at historical average minus one standard deviation (which accounts for instability in both cotton production and cotton farmer pricing).
5/ Revenues are inclusive of grants.

Appendix C: Methodological Approach Used to Calculating the Primary Surplus to Stabilize the Debt Ratio and (Endogenous) Primary Balance in Response to Shocks

(This follows results in Box 2 and the paragraph 10)

The standard debt dynamics equation is given by:

$$d_t = \left[\frac{1+r_t}{1+g_t}\right] d_{t-1} - pb_t \qquad (1)$$

where d_t is the ratio of debt to GDP at time t, r_t the (average) real interest rate on public debt at time t, g_t the real GDP growth at time t, and pb_t the ratio of primary balance to GDP at t.

Thus, from (1), stabilizing the debt ratio at its 2006 level, that is $d(stable) = d_{2006} = ... = d_{2027}$ will require

$$pb_t(stable) = \left[\frac{r_t - g_t}{1+g_t}\right] d(stable) \qquad (2)$$

Furthermore, assuming that the debt path is known given a shock that occurs at t, the **endogenous primary balance** required to keep (1) holding each time is

$$pb_t(shock) = \left[\frac{1+r_t(shock)}{1+g_t(shock)}\right] d_{t-1} - d_t(shock) \qquad (3)$$

Remark 1: The shock equation in (3) includes any debt path that is different from the stabilizing debt path. Thus, the second scenario above in which (a) there are no reforms (i.e., shock to g_t); (b) the government T-bill-financed deficit increases (i.e., shock to r_t), or (c) non-broad-based growth (i.e. shock to g_t with high volatility) can be captured by (3), given the right-hand side variables and parameters.

Remark 2: By definition, the debt-stabilizing primary balance assumes the same interest rates and real growth rates path as the baseline. However, given the existing macroeconomic conditions, the baseline does not stabilize the debt ratio, and thus, the fiscal effort needed from the baseline to stabilize the debt ratio is: $Fiscal\ effort(at\ time\ t) = pb_t(baseline) - pb(stable)$

INTERNATIONAL MONETARY FUND

BENIN

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Informational Annex

Prepared by the African Department

December 20, 2007

Contents Page

I. Relations with the Fund
(As of October 31, 2007)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund holdings of currency	59.72	96.48
Reserve Position	2.19	3.53
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.17	1.79

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	2.64	4.26

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Aug 05, 2005	Aug 04, 2008	6.19	2.64
PRGF	Jul 17, 2000	Mar 31, 2004	27.00	27.00
PRGF	Aug 28, 1996	Jul 16, 2000	27.18	16.31

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal					0.18
Charges/Interest	0.10	0.37	0.37	0.37	0.37
Total	0.10	0.37	0.37	0.37	0.55

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

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Jul 2000
Assistance committed	
by all creditors (US$ Million) [1/]	265.00
Of which: IMF assistance (US$ million)	24.30
(SDR equivalent in millions)	18.40

Completion point date	Mar 2003

II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	18.40
Interim assistance	11.04
Completion point balance	7.36
Additional disbursement of interest income [2/]	1.66
Total disbursements	20.06

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

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

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

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

II. Debt Relief by Facility (SDR Million)

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

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

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

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

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

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Benin. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress made in strengthening the bank's safeguards framework since the 2002 assessment and a number of areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established and follow-up on internal and external audit recommendations has been strengthened.

The monitoring results of the first half of 2007 indicate certain vulnerabilities, remaining in internal control systems, and some progress achieved in improving the external audit process (including adopting a multi year audit program), establishing an audit committee, expanding disclosures in the notes to financial statements on financial positions with the Fund by countries, and further strengthening the effectiveness of the internal audit function.

X. Exchange Arrangement:

Benin is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. On April 28, 2006, the rate of the CFA franc in terms of SDR was CFAF 769.68 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XI. Article IV Consultations:

The last Article IV consultation discussions were held in Cotonou during August 9–23, 2006. The staff report (Country Report No. 07/6) and selected issues paper were discussed by the Executive Board, and the 2006 Article IV consultation concluded, on November 27, 2006.

XII. 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 taken quickly to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report No. 02/217).

XIII. 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 Initiative resources.
FAD	Technical assistance	September 11-25, 2002	Helping the authorities strengthen domestic revenue and customs administrations.
FAD	Technical assistance	August 23 – September 3, 2003	Evaluating public expenditure management reforms and monitoring capacity of poverty- reducing expenditures.
FAD	Technical assistance	October 22 – November 5, 2003	Evaluating the implementation of the action plan to strengthen domestic revenue and customs administrations
STA	Technical assistance	November 11- November 24, 2004	Assessing the quality of balance of payment statistics.
FAD	Technical assistance	October 10–23, 2006	Review of status of implementation of reforms to modernize the tax and customs administrations
FAD	Technical assistance	October 30– November 13, 2006	PFM diagnostic and preparation of a reform action plan

XIV. Resident Representative:

Mr. Yao has been the Resident Representative since September 26, 2005.

II. Relations with the World Bank Group

Partnership in Benin's development strategy

1. Benin's revised poverty reduction strategy paper (PRSP) was finalized in April 2007 and discussed at the Bank and Fund Boards in June 2007. 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. 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

3. 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

4. **Divestiture program and private sector development**. The Bank has supported Benin's program for the divestiture of public enterprises **through different projects.** Assistance for the privatization of the telecommunications company and **for improving the Cotonou port operations** is provided through the Private Sector Development Project. The Bank supports private participation in the electricity branch of the SBEE through the Energy Services Delivery Project which was approved by the Bank's Board on July 6, 2004. The privatization of SONAPRA's ginning mills, along with reforms aimed at liberalizing the sector and strengthening the capacity of producers is supported by the Cotton Sector Project.

5. **Fiscal policy and fiduciary framework.** Fiscal consolidation was a key objective of the Fund-supported PRGF arrangement. The Bank is focusing on improving the efficiency, transparency and accountability of public expenditures. In addition, the Bank is helping to strengthen Benin's fiduciary framework through analytical and advisory activities (AAA), such as the updates of the Country Procurement Assessment Report (CPAR) and Country Financial Accountability Assessment (CFAA), and the governance and anti-corruption survey. The PRSC series also supports a comprehensive action plan for fiduciary and public procurement reform.

6. **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 revised PRSP. The PRSP was discussed at Bank and Fund Boards in June 2007, 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.

7. **Debt sustainability.** The Bank and the Fund jointly supported the government's efforts to reach the HIPC Initiative completion point in March 2003 and qualification for the MDRI. In the context of the new PRGF program, Bank and Fund staffs updated the debt sustainability analysis for Benin, in close collaboration with the authorities.

8. **Financial sector policy.** The Fund has supported the government's efforts to strengthen Benin's financial sector. As part of the Private Sector Development Project, the Bank has been providing support to two major microfinance institutions. A financial sector review was completed and the report was released in July 2004.

World Bank strategy

9. **The overriding objective of the Bank's** Country Assistance Strategy (CAS) discussed at its Board on July 3, 2003 is to help Benin reverse the recent trends of limited poverty reduction and improve economic 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 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 PRSP pillars. **A new CAS is scheduled to be prepared in 2008 based on the revised PRSP.**

10. To advance public sector management reforms aimed at increasing efficiency in the use of public resources, the Bank will continue its support of Benin's public expenditure reform through financial and technical support. Annual single-tranche PRSCs are envisaged to remain a key vehicle for Bank support to the country. A first PRSC was presented to the Bank's Board in March 2004, the second in June 2005, the third in November 2006 and the fourth in June 2007. The series is expected to continue to support the PRSP pillars, with components on economic growth, service delivery, and governance.

11. 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 programs to the PRSP and some of them (the European Union, the African Development Bank, Switzerland, Denmark, and the Netherlands) have

engaged in 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 August 5, 2007)

	Effectiveness Date	Original Principal (IDA)	Undisbursed (IDA)
Private Sector	8/31/00	30.4	3.3
Cotton Sector Reform	9/12/02	18.0	3.3
HIV/AIDS Multisector 02	Not yet effective	35.0	35.6
Energy Service Delivery	4/25/05	45.0	41.1
National CDD	5/2/05	50.0	34.9
2nd Decentralized Cities	3/8/06	35.0	25.3
Malaria	03/16/07	31.0	31.1
PRSC 4	-	40.0	40.3
Total		290.4	214.8

12. As of **October 25, 2007**, the Bank lending portfolio consisted of eight operations, with a net commitment of US$290.4 million and an undisbursed balance of US$214.8 million (see table above).

Prepared by World Bank Staff. Questions may be asked to **Mr. James Bond**, Country Director for Benin, ext. 32644; or Ms. Nancy Benjamin, Economist for Benin, ext. 30189.

BENIN: STATISTICAL ISSUES
(As of December 6, 2007)

1. Economic data are broadly adequate for both program monitoring and surveillance, and, the common indicators required for surveillance are generally provided to the Fund 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 the national statistical system; sectoral metadata, which were initially posted on the Fund's Dissemination Standards Bulletin Board in September 2001, are due to be updated. As a follow-up to GDDS participation, STA technical assistance (funded by the Japanese government) is being offered to the eight member countries of the West African Economic and Monetary Union (WAEMU) to assist with implementation of plans for the improvement of their statistical systems. A Fund regional statistical advisor initiated a program of assistance in government finance statistics, which is now managed by the West Africa Regional Technical Assistance Center (AFRITAC West). A real sector statistics improvement program, conducted in collaboration with the regional statistical office AFRISTAT and initiated in May 2002, is currently being implemented.

Real sector statistics

2. The country participates in WAEMU's harmonization of statistical methodologies through the multilateral surveillance process, currently seeking regional improvements in the area of national accounts. In 2003, the National Statistics Institute (INSAE) undertook the necessary steps to change the base year to 1999 using the ERETES module. Under the GDDS project for the AFRITAC West countries, a statistical register and an industrial production index are being developed, and a series of missions are scheduled to assist in the implementation of the *1993 SNA*. The last AFRITAC West mission of November 2006 helped with the compilation of 2001 accounts using the ERETES module and advancing the work for preparing the accounts for subsequent years.

3. Consumer prices are measured using the WAEMU harmonized consumer price index.

Government finance statistics

4. Monthly government finance statistics are compiled by the Ministry of Finance with a one to three month lag, based on information provided by the budget, customs, tax, and treasury directorates. The Ministry of Finance prepares a monthly reconciliation of spending commitments made by the budget directorate and payments made by the treasury. However, no final budget or treasury accounts are published at the end of the fiscal year. Data compilation and reporting have been strengthened as a result of a series of AFRITAC West/STA technical assistance missions and training during the period 2005-07, offered by

AFRITAC West/ STA. The authorities provided data for publication in the 2006 and 2007 issues of the *Government Finance Statistics Yearbook (GFSY)* and they recently began providing STA with high-frequency data for publication in *International Financial Statistics (IFS).* The coverage of these data are limited to the "Budgetary Central Government," but in a broad sense, i.e., covering eight of the principal ministries and other units of central government and general government.

Monetary and financial statistics

5. Monetary and financial statistics are compiled and disseminated by the regional Central Bank of West African States (BCEAO). Difficulties experienced by the BCEAO in estimating currency in circulation for the individual member countries, partly because of delays in processing cash in its vaults, prompted AFR and STA to draft a joint letter to the Governor of the BCEAO requesting an analysis of the developments in currency-in-circulation and net foreign assets, and a description of measures being undertaken to improve the situation. In response, the BCEAO made substantial revisions in 2005 to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients (initially established in 1990), has been applied retroactively from December 2003. The BCEAO is using sorting coefficients to evaluate the amounts of currency issued by each country, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country.

6. A monetary and financial statistics mission visited the BCEAO headquarters in Dakar 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 (MFSM).*

7. In August 2006, as part of the authorities' efforts to implement the *MFSM*'s methodology, the BCEAO reported to STA test monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). STA sent comments on the data to advance the work, but the BCEAO has not yet responded. STA is following up with the authorities on the matter.

Balance of payments

8. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO by area-wide legislation adopted by the countries participating in the WAEMU. The national agency of the BCEAO in Cotonou is responsible for compiling and disseminating balance of payments statistics,

and the BCEAO headquarters in Dakar for delineating the methodology and calculating the international reserves managed on behalf of the participating countries.

9. Data consistency has significantly improved over the past few years, with a full transition to the *Balance of Payments Manual, Fifth Edition (BPM5)*. The BCEAO national agency typically disseminates balance of payments statistics with a more than one year lag, exceeding GDDS guidelines. The BCEAO also compiles and disseminates the annual data of the international investment position data with an 18-month lag.

10. Regarding trade data, the ASYCUDA [1]customs computer system is now installed in all main border customs houses; ASYCUDA ++ is installed in the port and at the airport. The interconnection between the computer systems of the main departments of Customs has not been completed yet and the monitoring of import data needs to be stepped up.

11. 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.

12. 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 partial surveys of residents' foreign assets. The organization of an exhaustive annual survey of foreign direct investment transactions is still at a very preliminary stage. The BCEAO has recently updated the compilation of commercial bank data on payments involving nonresidents; however these data are not used to produce annual balance of payments estimates, but rather to assess existing information.

13. A technical assistance mission on balance of payments statistics visited Cotonou November 11-23, 2004. Key findings were that human resources devoted to balance of payments statistics by the national agency of the BCEAO are insufficient, but that the reporting system was well developed and consistent. Regarding trade in goods, and the recording of informal transactions, the statistical adjustments to Customs data appear methodologically sound; however, the hypotheses and reference bases on which they rest are largely untested. Other weaknesses in the current account concern the underestimation of transportation services and overestimation of current transfers. In the financial account, the coverage of direct investment is poor while unsorted banknotes impacts on the compilation of net external assets in the balance of payments and international investment position statistics.

Poverty data

14. Major methodological weaknesses remain regarding poverty data. In particular, the methodology used in the household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of the country

into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities are implementing an action plan to address these methodological issues. The authorities have completed a modular survey of household living conditions to update the poverty profile in the context of the preparation of the second PRSP.

External debt

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

[1] The ASYCUDA (or SYDONIA, in French) 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 administrations, it is provided together with appropriate staff-training schemes.

Benin: Table of Common Indicators Required for Surveillance

(As of December 3, 2007)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	07/07	10/07	M	M	M
Reserve/Base Money	07/07	10/07	M	M	M
Broad Money	05/07	08/07	M	M	M
Central Bank Balance Sheet	07/07	10/07	M	M	M
Consolidated Balance Sheet of the Banking System	05/07	08/07	M	M	M
Interest Rates[2]	07/07	08/07	M	M	M
Consumer Price Index	08/07	11/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/06	3/07	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]					
External Current Account Balance	2005	03/07	A	A	A
Exports and Imports of Goods and Services	2005	03/07	A	Q	A
GDP/GNP	2006	8/07	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Press Release No.08/05
FOR IMMEDIATE RELEASE
January 9, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under PRGF Arrangement with Benin and Approves US$1.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Benin's economic performance under the SDR 6.19 million (about US$9.8 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No.05/190), and approved the disbursement of an amount equivalent to SDR 0.88 million (about US$1.4 million).

In completing the review, the Board approved Benin's request for waiver of the non-observance of a structural performance criterion pertaining to the establishment of a privately controlled cotton ginning company. The Executive Board also approved the authorities' request for an extension of the PRGF arrangement until August 4, 2009.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that 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 5½-year grace period on principal payments.

In commenting on the Executive Board's decision, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Beninese authorities are to be commended for the additional gains in macroeconomic stabilization in 2007 under the PRGF-supported program. A strong revenue performance helped to underpin a further improvement in public finances, economic growth increased and inflation remained low. However, more vigorous implementation of structural reforms will be essential if growth is to be raised to a level where economic vulnerabilities and high poverty can be tackled more decisively.

"Fiscal management continues to improve as the authorities endeavor to strengthen governance at revenue agencies and to enforce expenditure procedures more rigorously. Revenue is estimated to have reached a record high in 2007 and lower net bank credit to the government has facilitated private sector borrowing. However, weaknesses in the rate of execution of the investment budget and limited absorption capacity have continued to constrain the authorities' ability to effectively address infrastructure bottlenecks and speed up poverty alleviation.

"Against this backdrop, the authorities appropriately plan to focus in the period ahead on completing ongoing reforms to strengthen customs and tax administration and further improving public expenditure management so as to enable the achievement of further fiscal consolidation while raising outlays for pro-poor and pro-growth projects. Prudent public debt management and control over the public sector wage bill will further help preserve fiscal sustainability and create space for priority spending.

"Decisive progress in rolling back government involvement in commercial activities in key sectors, including cotton, remains the linchpin of Benin's structural reform agenda. Following an unsuccessful attempt to privatize SONAPRA, the authorities are encouraged to expedite their planned wide-ranging review of the sector and build consensus for a comprehensive reform strategy that secures state disengagement and also addresses key constraints to more efficient cotton sector operations. In the electricity and telecommunications sectors, efforts will need to focus on selecting strategic partners. The authorities' plans to enlist external expertise in Port of Cotonou management are important to help to enhance trade flows and achieve further competitiveness gains.

"The authorities' plans to step up additional reforms to promote private sector development beyond these sectors are welcome. A priority is to improve the business climate and continue to enhance governance and transparency. Measures to facilitate access to credit for small- and medium-sized enterprises, strengthen the banking system, and improve the efficiency of the land tenure system and the judiciary will enhance prospects for broad-based growth and economic diversification," Mr. Portugal said.

Statement by Laurean W. Rutayisire, Executive Director for Benin
January 9, 2008

On behalf of my Benin authorities, I would like to thank the Executive Board, Management and Staff for their continued support to Benin's efforts towards sustained reforms and sound macroeconomic policies. I would also like to thank staff for constructive policy advice over the past years and also for the fruitful discussions held during their recent visit to Cotonou. As has been the case with staff reports on previous reviews, the authorities have expressed their consent to the publication of staff reports on the third review.

2. Benin's performances under the PRGF have remained steadily positive. All quantitative performance criteria and benchmarks for the period under review were met. The implementation of structural reforms also continued to move forward. Following irregularities in the bidding process and lack of interest from private investors in the privatization of the state-owned cotton company, my Benin authorities have, with the help of the World Bank and in consultation with concerned stakeholders, initiated a reform strategy which involve a thorough review of economic and institutional constraints prevailing in the sector. The strategy will broaden the reform agenda beyond solely state disengagement from the ginning activities, and comprehensively tackle all aspects of the cotton production and market chain. The authorities plan to complete this reform strategy before the end of 2008.

I. Recent Developments

3. **Macroeconomic performance** under the current PRGF continues to improve. With real GDP growth rates of 3.8 percent in 2006 and 4.2 percent projected for 2007, the Beninese economy is steadily recovering from its downward trend of 2000- 2005. This encouraging achievement, albeit lower than initially projected, is explained by the steady resumption of cotton production, good performance in non-cotton agriculture, and recovery in the service sectors, particularly following implementation of policy measures to resolve issues that were hindering performance in regional trade, telecommunication and port sectors. Owing to good production of foodstuffs in the country and in the sub-region, as well as to prudent monetary policy, inflation is projected to ease to a rate below the WAEMU target range of 3 percent, versus 3.8 and 3.7 percent in 2006 and 2005, respectively. The downward trend in inflation rate further helped to stabilize the REER in spite of the continued nominal appreciation of the CFA Franc relative to the US dollar.

4. On **fiscal front**, the authorities have continued to pursue **fiscal consolidation** engaged since 2006. Revenue collection is projected to increase from 16.8 percent of GDP in 2006 to 19 percent in 2007, outpacing the program target of 17.2 percent. Importantly, beyond revenue gains from the economic steady recovery, the

achievements in tax collections were mainly the results of a number of reform measures implemented to improve both governance and efficiency in the tax and customs administration. On expenditure side, the authorities continued to tighten control over spending in line with the country's absorptive capacity and the needs to ensure quality. Consequently, the pace of spending substantially slowed down throughout the first half of 2007, especially in domestically-financed investment outlays. Meanwhile, the government has invested unutilized funds in high-yield terms deposits with the banking system for effective use in 2008 and subsequent years, along with implementation of measures to improve the execution of budget.

5. Progress has also been made on the **external front**, with the current account deficit expected to continue easing from 7.9 percent of GDP in 2004 to 6.7 percent in 2007. This external outlook is projected to remain viable in the wake of the rise in exports receipts, with the current account deficit further moving to 6.1 percent in 2008 and foreign exchange reserves at about 12 months of imports throughout the year 2010. The DSA results continue to point out the moderate risk of debt distress for Benin, with all debt indicators remaining well below their respective thresholds under the baseline scenario. Only the NPV of external debt-to-exports ratio could be breached in the very hypothetical event of low real GDP growth, lower exports, and less generous financing terms.

II. Policy and Structural Reforms Agenda for 2008 and beyond

6. In 2008 and over the medium-term, the authorities will pursue their development agenda for an emerging Benin. To this end, they are determined to speed up the implementation of the structural reforms, in order to tackle the still challenging obstacles to economic growth, competitiveness and poverty reduction. Importantly, Benin authorities will continue to consolidate the macroeconomic stance, strengthen public investment, particularly in social, agriculture and infrastructure sectors, and improve the business climate. In line with these reforms, economic growth is projected to reach 5.4 percent in 2008. In addition, owing to continuing prudent monetary policy and progress on fiscal consolidation, inflation will be kept within the limits of WAEMU convergence criterion of 3 percent.

7. In pursuing further their **fiscal consolidation**, the authorities intend to maintain the primary budget surplus at its 2007 level of 1 percent GDP, contain overall fiscal deficit to equivalent of 4 percent of GDP, whilst effectively responding to expenditure needs particularly in the social, productive and infrastructure sectors. To achieve this, efforts to increase revenue collection by 5.5 percent will continue through implementation of measures to further broaden the tax base, enhance the effectiveness and efficiency of the tax administration, and expend the customs administration by establishing new customs posts and delocalizing certain posts.

8. On expenditure side, an increase of 7.8 percent is projected in 2008, with capital expenditure projected to increase to about 4 percent of GDP. While still relatively low, this ratio will be progressively augmented over the medium-term in order to meet the infrastructure needs of the country. At the same time, prudent debt and cautious spending policy will be maintained through continued tight control of expenditure and contained growth of wage bill, notwithstanding new recruitment of public servants to reinforce the capacity of key sectors. Efforts to improve budget execution, particularly the domestically-financed capital budget, will be stepped up. To this end, measures will be implemented to overcome capacity constraints in the procurement system at the central and line ministries. Building on findings of the audit of the Benin's public finance automated information systems (SIGFIP, ASTER, and WMONEY), measures will also be implemented to make expenditure accounting more comprehensive, hence further improving spending execution and monitoring. Furthermore, the government will establish a Large Project Preparation and Monitoring Committee and build its capacity to conduct feasibility studies, select and identify sources of financing for key infrastructure projects, and monitor their implementation.

9. My Benin authorities will continue to adhere to the prudent **monetary policy** conducted by the regional central bank BCEAO, which targets an increase in the broad money at a rate of 8.4 percent equivalent to that of the nominal GDP in 2008. They will continue to restrain net claims of the banking system on government in order to allow for increase in credit to the private sector. This upturn in the credit to the private sector will help finance activities that will contribute to higher growth.

10. My authorities are taking steps to build a sound **banking system**, that is capable of financing the economy and competing within and beyond the WAEMU region. To this end, the central bank (BCEAO) has designed a plan aimed at raising over three years the minimum capital from CFAF 1 billion to 10 billion. Further, with the support of the Millennium Challenge Account - funded program for Benin (MCA-Benin), reforms aimed at enhancing the efficiency of the land tenure and judicial systems as well as an evaluation of financial services demand were launched. These efforts will lead into the design of a comprehensive financial sector development strategy, which together with findings from regional FSAP, both expected in 2008, will help identify additional measures not only to reinforce the banking sector compliance but also to improve access to credit, especially by small - and medium-sized enterprises. The development of the financial sector, together with improvement in land tenure and the judicial systems, will help in creating an enabling environment for private sector businesses and diversification of the economy.

11. With regard to **structural reforms**, steps are being taken to ensure that all reforms are executed in timeframe consistent with the authorities' commitment under the current PRGF arrangement. A reform strategy of the Benin National Pension Fund is

under preparation, with implementation of its recommendations to start promptly. As for **electricity sector**, the process for the privatization of Société Béninoise d'Electricité et d'Eau (SBEE) effectively began in January 2007 by a workshop involving the employees of the company and the World Bank. The agreed timetable set an 18-month period, leading to end-January 2009 with the call for expression of interest from potential investors. Beyond the restructuring and privatization of SBEE, my authorities are deeply concerned about finding sustainable solutions to the energy problems facing the country. After negotiating additional energy power supplies from Ghana and Nigeria, the government has granted tax incentives to businesses for the acquisition of autonomous electricity generation units, and is planning to help SBEE acquire additional generation capacity of 80MGW of electric power. Regarding the **privatization of Bénin Telecoms**, the authorities' timetable set also end-January 2009 as the date for the call for expression of interest from potential investors. As was the case for electricity sector, the strategy aimed at restructuring the telecommunication sector before privatizing the state-owned telecom company. In this regards, we recall that the government has appointed an interim regulatory authority - *Le Conseil Transitoire de Régulation des Postes et Télécommunications* - to prepare the regulatory framework of the sector.

12. With support from MCA-Benin, my authorities are implementing reforms to enhance the efficiency and competitiveness of the **Port of Cotonou**. The reforms include privatizing the management of the port facilities and improving the economic and fiscal role of the customs administration. My authorities have launched international calls for expressions of interest for the recruitment of a "Port Expert" who will conduct the day-to-day management of the port, and the process will be completed by end-June 2008. Further measures to enhance the port competitiveness would derive from the conclusion of the assessment of the country's customs system, particularly the effective implementation starting 2008 of the Virtual One-Stop Shop and the Consolidated Electronic Billing System (Bordereau de Facturation Unique).

Conclusion

With the above commendable achievements, my authorities have once again demonstrated their commitment to - and ownership of - policies reforms laid out under the ongoing PRGF-supported program. Though challenges are still daunting, and some of the reforms will take time to fully yield results, my authorities are committed to pursue their endeavors, accelerate the pace of reforms to transform the Beninese economy. In view of this renewed commitment for the period ahead, I will appreciate the Board's support for the completion of the third review under the PRGF for Benin, the waiver for nonobservance of the missed structural performance criterion, and the extension of the current PRGF arrangement until August 4, 2009.