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Benin: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

March 23, 2017

The following item is a Letter of Intent of the government of Benin, which describes the policies that Benin intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Benin, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Letter of Intent

Cotonou, March, 23 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Madame Managing Director:

In March 2016, following transparent elections, Mr. Patrice Talon was elected President of Benin. In April 2016 he formed a reduced government consisting of 21 members. The 65 percent share of the votes that he received has granted him the opportunity to turn his single term into five years of economic recovery. The people have thus given him a clear mandate for implementing his vision for the country, which was outlined in his New Beginning election campaign. This vision was articulated in the Government’s Action Program (GAP) for 2016–21, which the government adopted and the President introduced publicly on December 16, 2016.

The implementation of the GAP is occurring in a challenging environment marked by the effects of the recession in Nigeria on the national economy and the fiscal slippages of the previous administration. It is with the aim of maximizing the prospects for success of the GAP that we are asking for support from the International Monetary Fund within the framework of a three-year arrangement under the Extended Credit Facility (ECF).

The Memorandum of Economic and Financial Policies (MEFP) attached herewith presents the economic and financial policies, as well as the structural reforms, that the Beninese government intends to implement over the next three years (2017–19). They are aimed at bringing about an in-depth transformation of Benin’s economy through sustainable and inclusive growth, while maintaining macroeconomic stability and the sustainability of public debt. The emphasis is on: (a) the creation of fiscal space through increased mobilization of domestic resources and more effective public spending; (b) strengthening of our capacity to prepare for and implement effective public investments; and (c) measures aimed at improving the business climate and enabling the private sector to benefit from new infrastructure so that it can develop and create jobs for young people, whose numbers are growing rapidly.
With the aim of helping to achieve the objectives of this program, the government is asking that the IMF provide a three-year arrangement under the ECF in an amount equivalent to SDR 111.42 million (US$150 million). This arrangement will serve as an anchor for the government’s macroeconomic policies and as a catalyst for financial assistance from Benin’s technical and financial partners.

The government believes that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of its program. It will undertake all additional measures that may become appropriate to this end. It will consult with the Fund regarding the adoption of such measures and prior to any revision of the policies outlined in the attached MEFP, in accordance with the Fund’s policies on such consultation.

The government will furnish IMF staff with all of the information mentioned in the Technical Memorandum of Understanding (“the Memorandum”) as provided in the attachment so that they can evaluate the progress made in the implementation of the economic program supported by the ECF. In addition, the government undertakes to discuss with IMF staff any other economic or financial matters related to the program, and in particular the drafting of the annual budget laws.

The government intends to make public the content of the IMF staff report, including this letter, the attached MEFP, the Memorandum, and the debt sustainability analysis performed by IMF and World Bank staff. Accordingly, it authorizes the IMF to publish these documents on its external website following approval of the new ECF arrangement by the IMF Executive Board.

Very truly yours,

/s/
Mr. Romuald Wadagni
Minister of the Economy and Finance

Attachments (2):
I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding
Attachment I. Memorandum of Economic and Financial Policies for 2017–19

RECENT ECONOMIC DEVELOPMENTS AND THE GOVERNMENT’S ACTION PROGRAM

A. Macroeconomic Developments in 2015 and 2016

1. The stability of the domestic environment and favorable international conditions of the past few years enabled Benin to achieve relatively dynamic growth rates (6 percent on average between 2012 and 2014), while inflation remained moderate. Nevertheless, in 2015 there was a significant slowdown in this growth, due primarily to contagion effects from the recession that hit Nigeria, Benin’s main trading partner. Furthermore, the steep increase in public spending, driven largely by the presidential elections that were held in March 2016, led to a substantial rise in the budget deficit, which almost tripled between 2014 and 2015. Economic growth nevertheless strengthened in 2016 and reached 4 percent thanks to the solid performance of the agricultural sector. The level of activity in the industrial sector, and to an even greater extent in the trade sector, is still being affected by the Nigerian recession and the depreciation of the naira.

2. The solid macroeconomic performance reported from 2012 to 2014 did not lead to a reduction in poverty in Benin. On the contrary, according to the National Institute of Statistics and Economic Analysis (INSAE), the proportion of the population living below the poverty line rose from 36.2 percent in 2011 to 40.1 percent in 2015. Poverty reduction therefore remains a major challenge that should spur political reforms and the redirection of public finances that the government is committed to implementing within the framework of this program for which it is requesting support from the IMF under the Extended Credit Facility (ECF).

3. Inflation has remained moderate in spite of the rise in prices for petroleum products coming from Nigeria. Refined petroleum products sold to Benin, for the most part imported from Nigeria through informal channels, experienced a rise in prices following the decision by the Nigerian authorities to reduce subsidies for petroleum products. The impact of this policy on the overall level of prices in Benin was largely offset, however, by a decline in the value of the Nigerian currency, in particular in the parallel market.

4. In terms of public finances, the execution of the revised budget for 2016, which was approved by the parliament in July, had mixed results. While efforts were agreed upon to contain current spending, a sharper decline in revenues, in particular customs revenues, led to a budget deficit (excluding grants) of 6.7 percent of GDP, 1.6 percentage points of GDP higher than budgeted. The current account deficit remained broadly stable between 2014 and 2015, in spite of the expansionary fiscal policy pursued by the government in 2015.
B. The Government’s Action Program for 2016–21

5. On October 26, 2016, the Council of Ministers adopted the Government’s Action Program (GAP) for 2016–21, which was unveiled by the President to the nation on December 16, 2016. The GAP is based on President Talon’s vision for Benin (Nouveau départ—New Beginning), which was discussed during the election campaign. It is centered around three pillars: (i) consolidation of democracy, the rule of law, and good governance; (ii) launching the structural transformation of the economy; and (iii) improving the living conditions of the population. The GAP is aimed at developing the potential for growth in value added in agriculture and tourism, which are identified as the main potential sources of growth. It recognizes the key importance of improving the quality of education as a determining factor in raising the productivity of the workforce. The strengthening of basic social services and social protection are also important goals. The focus of the GAP is in line with the 2030 Agenda for Sustainable Development and the 2015 Paris Climate Conference (COP21).

6. Along with the efforts undertaken to focus spending on investment and to mobilize more domestic revenues, efforts will be made to improve the quality of public spending by strengthening the selection, preparation, and execution of projects, and the procurement mechanism. The creation of a favorable environment for greater participation by the private sector is an essential component. To this end, a law on public-private partnerships (PPP) was passed by the parliament on October 11, 2016, and enacted by the government on October 24, 2016. The implementing decrees for the law in question have also been adopted. A series of structural reforms will allow for improvement of the business climate. These include measures aimed at improving the quality of governance in general and creating a favorable environment for the implementation of projects initiated in response to the results of economic and social assessments performed within the context of the drafting of the GAP. The GAP documentation, which is available on the government’s website, includes the complete version of the GAP, called “Bénin Révélé—Benin Revealed,” a summary of the program, as well as a portfolio of projects by sector, describing in details the Flagship Projects and the Priority Projects for the five-year period. The publication of these public investment project documents is unprecedented in Benin.

MEDIUM-TERM MACROECONOMIC OBJECTIVES AND POLICIES

A. Macroeconomic Objectives

7. The priorities of the economic program for 2017–19 are consistent with the strategic directions of the GAP. It is aimed at boosting the mobilization of domestic revenues, improving the quality and effectiveness of public spending, and strengthening governance and institutions with a view to promoting the development of the private sector. The medium-term macroeconomic framework is focused on an acceleration of economic growth, but with a lower level of investment than that provided for under the GAP in order to ensure the sustainability of public debt. Inflation should remain moderate and at a level below the West African Economic and Monetary Union (WAEMU) convergence threshold of 3 percent. The medium-term fiscal
program calls for an overall budget deficit (on a commitment basis, including grants) of 4.6 percent on average during the three years covered by the program. The achievement of the program goals would be supported by structural reforms aimed at: (a) creating more fiscal space through the modernization of the tax and customs administrations and improvement in the quality of public spending; (b) strengthening the management of public debt; and (c) improving the business climate. More generally, the Fund-supported should enable Benin to achieve sustained and inclusive growth with the aim of reducing poverty while ensuring the sustainability of public finances and debt. The financial assistance provided by the IMF under the ECF should also help the country to address the need for financing of its balance of payments.

8. Given the government’s strategy to redirect public spending to investment, efforts will be made to protect the most vulnerable segments of the population. Accordingly, the government has made improved living standards for the population a priority in its program “Benin Revealed”. This program will entail a new policy on social safety nets and universal access to basic social services. In particular, the State will be responsible for ensuring social protection for the most disadvantaged members of society. In addition, the government will roll out a policy to support the creation of income-generating activities for members of public, to be implemented through ongoing training, entrepreneurship, and microcredit for the financing of specific projects. This component, focusing on improved living standards, is based on two strategic pillars, including strengthened basic social services and social protection.

9. To ensure the sustainability of public debt, the government is committed to maintaining total public debt, in terms of net present value, at a maximum of 50 percent of GDP, despite the higher threshold afforded to it by Benin’s moderate rating of its Country Policy and Institutional Assessment (CPIA). Maintaining public debt at this level will enable the government to substantially increase capital expenditures while broadly limiting the risk of financial crisis to which the country could be exposed. With this in mind, a debt sustainability analysis will be performed regularly. This exercise will include an analysis of fiscal risks associated with public-private partnerships (PPPs), the debt of state-owned enterprises (SOEs) after an audit and evaluation are completed, as well as guarantees issued by the government on behalf of SOEs. With the aim of reducing the burden of short-term debt service on public finances, the government will seek to extend the maturity of financing on which it is relying for the funding of its large investment program.

B. Structural Reforms and Policies

Increasing Domestic Revenue Mobilization

10. For all the assistance from our technical and financial partners, and the funds contributed by international investors, we realize that Benin’s economic development should rely largely on domestic resources. In this context, and with a view to ensuring the sustainability of public debt, we are seeking to reform our fiscal policy and to improve the performance of the tax and customs administrations in order to increase the mobilization of revenues. Broadening of the tax
base is necessary in particular in order to boost government revenues. The goal is to raise the tax/GDP ratio from 14.7 percent in 2016 to 16.8 percent in 2019, in spite of the under-taxation of the primary sector, which nevertheless contributes more than one-third to the value added of economic activity. This tax-to-GDP ratio is still considerably lower than the WAEMU convergence target, which is set at 20 percent of GDP.

**Strengthening the Tax and Customs Administrations**

11. Benin has been working for several years with its technical and financial partners on approaches and tools to turn the tax administration into a modern, effective institution that simultaneously meets revenue requirements and provides high-quality user services. These reforms are consistent with the government’s goal of shifting public administration from a resource-based budget system to a system focused on results. These efforts led to the drafting of the 2017-2021 Strategic Plan for the Tax Administration (POSAF), which was adopted by the Committee of Directors of the Ministry of Finance at its special meeting on February 15, 2017 and validated by the Minister of Economy and Finance on March 13, 2017. The next step will be to prepare annual operational and working action plans based on the Strategic Plan with the technical assistance of the IMF, in order to launch the process of modernizing the tax administration. The DGI is also committed to compiling and publishing a list of VAT collectors starting in 2017.

12. Given an economy dominated by trade activities, close cooperation between the tax and customs administrations is a prerequisite for expansion of the tax base and the establishment of effective tax controls. At this time, the taxpayer base is quite narrow: only one-third of the “large” taxpayers pay the value-added tax. More effective use of the Single Taxpayer Identification Number (IFU) through the establishment of a comprehensive taxpayer database that is shared by the tax and customs administrations should allow for a significant improvement in the coordination between these two authorities. The issuing of temporary IFUs, used in particular for customs purposes, has been prohibited since 2015. The DGI is committed to ensuring the monitoring of the platform containing the central database of active IFUs and to making every effort necessary to ensure its regular updating through the entry of all of the relevant information about taxpayers, including their location, verified following an on-site visit. An interconnection with the Automated System for Customs Data (ASYCUDA), which is already operational, will enable customs authorities to consult that platform. Starting in February 2017, an importer who does not have an updated IFU will have to pay an additional charge of 10 percent on the value of its imports, in addition to the VAT and customs duties (structural benchmark). This reform will provide for more widespread use of the IFU and should enable the DGI to perform better monitoring of imported goods and to verify consistency with the taxpayers’ tax declarations. The Treasury will be connected to this IFU platform in a second phase.

13. The customs administration reforms have been delayed, primarily as a result of a longer transition than originally planned for the full implementation of the ASYCUDA World system. The operational problems have been resolved, however, and the transition to ASYCUDA World
should allow for the strengthening of risk analysis in customs in order combat fraud. Risk
assessment should be focused on the high-priority sectors and adapted to the intervention
capacities of the control services, primarily through better monitoring of goods selected for the
red channel. On the other hand, value has been factored into customs operations since January
2017, in particular through the effective monitoring of valuation notices issued by the value unit.

Improving the Functioning of the Expenditure Chain

14. The Ministry of Finance has just completed an action plan to improve the management
of public spending (PAAGFP), which has allowed for significant progress in this direction (revision
of the Tax and Customs Code, evaluation of debt sustainability, better monitoring of economic
conditions, production of the annual report on debt and the annual cash plan ...). There is still
considerable room for improvement in the system, however, as noted in the Public Expenditure
and Financial Accountability (PEFA) and Public Expenditure Management and Financial
Accountability Review (PEMFAR) reports (2014). The weaknesses that were identified involved in
particular the absence of multi-year budgeting, the management of cash flow, and the
monitoring of project execution. The government is planning to conduct, in collaboration with
the World Bank, a review of public expenditure over the past five years in order to identify the
factors affecting the quality of public expenditure (Structural Benchmark).

Strengthening Cash Flow Management

Treasury Single Account

15. For some time, we have been working to strengthen our cash flow function. We expect
that this will result in gains in efficiency, but also better functioning of the expenditure chain, in
particular the prevention of arrears and recourse to unnecessary borrowing. One major reform is
the adoption of a Treasury Single Account (TSA). The directives of the WAEMU require that all
public funds (those of the central government, administrative public agencies, and local
governments) be managed through an account opened with the Central Bank of West African
States (BCEAO). At this time, the Treasury has a single account with the BCEAO, but the accounts
of other entities – ministries, administrative public agencies, and local governments – have not
been closed. An inventory of these accounts is under way, and the results are expected by End-
March 2017. Our timetable for their closure and for making the TSA operational provides for the
following steps:

- determination of the architecture and functioning of the TSA by End-July 2017;
- adoption of an implementing text for the decree on public sector accounting standards with
  the aim of defining the scope of the TSA in August 2017;
- bringing the chart of accounts and the information system into line with the TSA architecture
  by End-November 2017;
- closure of all the accounts opened at banks by End-December 2017;
• adoption of appropriate measures for the opening of deposit accounts for the administrative public agencies and administrative government entities concerned during 2018;
• drafting and approval of procedural manuals regarding the TSA by February 2018;
• training of personnel in the new procedures and IT applications by April 2018; and
• putting the TSA into operation starting in July 2019.

Cash Flow Management, Arrears, Budgetary Float, Certified Treasury Checks

16. Improvement of the expenditure chain also involves better cash flow management (structural benchmark). We currently produce a monthly cash plan, but up until now this tool has not resulted in a significant reduction in domestic payment arrears, or a substantial decline in the issuing of certified Treasury checks that remain unpaid. To this end, within the framework of the new 2016-2020 PAAGF, we will:

• put into place a specific mechanism for the monitoring of budgetary float and arrears within the framework of the Cash Management Committee;

• improve the planning of cash requirements by making use of commitment plans of authorities and institutions related to the state budget;

• put into place a system for regulating commitments that takes into account the actual mobilization of resources (collection of budget revenues, disbursement of budget support, domestic financing);

• strengthen the capacities of the Cash Management Committee with regard to the monitoring and weekly allocation of cash resources.

Payment arrears as of End-June 2016 are currently the subject of an audit, which will be completed in September 2017. On the basis of the results of this audit, we will put into place a plan to clear the arrears and we will work on the implementation of its recommendations. Efforts have begun to resolve the issues with certified Treasury checks: this will allow for immediate payment of certified checks that currently remain unpaid, within an average period of 15 days. The process of dealing with all of the outstanding certified Treasury checks will be completed by June 2017.

Strengthening of Debt Management

17. A number of reforms have been undertaken in Benin within the framework of institutional and legal strengthening of debt management. Debt is managed jointly by the Treasury and Public Accounting Directorate (DGTCP) and the National Amortization Fund (CAA—the government debt management agency). In order to improve the effectiveness of debt management, a decree was issued in October 2015 to define the responsibilities and authorities
of the two structures in this area and thereby to avoid a fragmented approach and operational overlaps. Since 2015, the CAA departments have been reorganized around front, middle, and back office functions in accordance with international standards. The reorganization of Treasury departments has lagged behind, but it will take effect by End-2017. It makes provision for the following measures: (i) organization of the departments in the new organization chart establishing the responsibilities, organization, and functions (AOF) of the DGTCP in divisions and sections in the third quarter of 2017; (ii) the transfer and allocation of responsibilities across technical directorates, in accordance with the new organization chart establishing the responsibilities, organization, and functions of the DGTCP in the first half of 2017; (iii) preparation of manuals of procedures for the various technical directorates of the DGTCP as well as other documents required by the reorganization of the DGTCP by End-August 2017; and (iv) dissemination of provisions governing the new organization chart establishing the responsibilities, organization, and functions of the DGTCP by End-June 2017.

18. Significant efforts have been made to improve the availability of information on public debt: (i) the CAA website has gone online; (ii) a statistical bulletin on public debt is published on a quarterly basis; (iii) an annual report on public debt management has been prepared; and (iv) a medium-term debt management strategy document was appended to the 2017 budget law. Some additions could be made to this document, however, and it could explicitly include a public debt ceiling as recommended by the Organic Law on Budget Laws. In addition, the monitoring of public debt should cover all of the guarantees granted by the government and the debt of public enterprises.

**Multi-Year Budgeting**

19. The transition to multi-year programming has been effectively implemented for budget preparation at all ministries. As for the execution of public expenditure in program mode, this will be tested in 2017 by five (05) pilot ministries, namely the Ministry of Economy and Finance, the Ministry of Infrastructure and Transport, the Ministry of Nursery School and Primary School Education, the Ministry of Secondary and Technical Education and Professional Training, and the Ministry of Foreign Affairs and Cooperation. This public expenditure budgeting and execution system is expected to be fully operational in 2019 and should be expanded to all of the ministries in line with the recommendation of the AFRITAC West mission (structural benchmark).

**Procurement**

20. The public procurement oversight system has been improved considerably over the past five years thanks to the utilization of the new Public Procurement Code. We intend, however, to make some adjustments to it in order to bring it into line with best international practices. The modernization of procurement procedures has benefited from the implementation of the Integrated Public Procurement Management System (SIGMap) and the introduction of a public procurement web portal (www.marches-publics.bj), which the public procurement officials of various contracting authorities use for conducting the procurement process and for producing the relevant statistics in real time. The times required for the performance of several stages in the
process have been reduced. The production and dissemination of manuals and guides has improved the quality of tenders. The monitoring and transparency of procurement procedures could still be improved, however.

21. The Public Procurement Regulatory Authority (ARMP) and the National Directorate for Oversight of Public Procurement (DNCMP) will develop databases on public procurement in order to meet not only needs related to management and oversight of the procurement processes, but also needs related to evaluating the effectiveness and efficiency of the procurement system. Regulation will be strengthened with regard to the statistical publications drawn from these databases and measures will be taken to ensure the effectiveness and regularity of these publications. The transparency of the public procurement system will be further enhanced by the publication on the national website (www.marches-publics.bj) of information drawn from SIGMap, in line with the Open Contracting Data Standard (OCDS) initiative, which we intend to adopt (structural benchmark). We will ask the World Bank, one of the partners in the initiative, to provide us with technical assistance in this effort.

22. In view of recent experiences in the sub-region and lessons learned from the pre-financing arrangements used in 2015 and early 2016, the government has canceled most of the contracts in question and has discontinued the use of this type of financing as a funding method for public investment (see paragraph 9). Furthermore, the law on PPPs enacted in October 2016 should provide a frame of reference for the financing of major investment projects by the private sector.

Monitoring GAP Projects

23. We recognize the need for strengthening of our capacities in terms of investment planning and the assessment, selection, and monitoring of projects in order to ensure the effectiveness of public investment. An institutional framework for the monitoring and coordination of the GAP has been adopted for this purpose. This framework is organized around the following entities: (i) the Council of Ministers, which sets the general guidelines and reviews and approves the implementation reports; (ii) the Committee for the Monitoring of Flagship Projects (CSPP), under the supervision of the President of the Republic; (iii) the Monitoring and Evaluation Committee (CSE), which is chaired by the Minister of State for Planning; and (iv) the sectoral monitoring committees (CSSs), which are chaired by the sectoral ministers. The planning and execution of priority investments by the sectoral ministries – one fourth of the GAP – follow existing procedures for the most part, under the supervision of the Ministry of Planning and Development. Given the scale of the flagship projects—which account for three-fourths of the GAP—the CSPP is responsible, among other things, for addressing the main risk factors (resource constraints, weak absorption capacities, delays in administrative procedures, etc.) with the aim of ensuring the proper execution of investment projects.

24. In addition to this general institutional framework, two specific mechanisms have been provided for in order to strengthen monitoring and facilitate the performance of investment projects and the effective implementation of the 77 priority reforms outlined in the GAP:
- the creation of presidential GAP monitoring units: these are units will be put into place by economic sectors (education, health, etc.) and comprised of monitoring and evaluation experts and sectoral experts tasked with close supervision of projects to provide real-time alerts to the Office of the President, to the two Ministers of State, and to the Minister of Finance. Some 20 monitoring officials have been recruited for the launching of these units.

- the creation of sectoral reform committees: the 77 priority reforms have been allocated by the Ministry, and they will be implemented by the sectoral committees under the supervision of the Office of Analysis and Investigation (Bureau d’investigation et d’analyse—BAI). It should be noted in particular that major reforms are planned to improve the business climate in Benin in order to attract the private investment planned for the financing of the GAP (61 percent of the total cost).

25. Better planning of public investments, particularly by making use of the capacities for analysis of the effectiveness and feasibility of major projects, is a priority of the Ministry of the Economy and Finance. Following the launching of the GAP, most of the autonomous agencies for carrying out the actions and reforms defined by the sectoral ministries have been created for the implementation of flagship projects. The BAI under the Office of the President is responsible for their supervision. The creation of the BAI is justified by the need for the President of the Republic to have an authoritative body to oversee the mobilization of financial and human resources within the framework of the implementation of the GAP (structural benchmark). The BAI serves the entire government and it is comprised of a group of various experts who participate in: (i) the design and monitoring of projects (strategic guidelines, feasibility studies, monitoring of finances, performance, and reporting); (ii) operations management (legal and organizational support, research, and staffing, etc.); (iii) governance (support, monitoring, and quality review of reforms; strengthening of the management processes and the internal control system; establishment of performance plans, investigation missions, and specific studies); and (iv) the mobilization of resources (identification of technical and financial partners, arrangements with technical and financial partners and follow-up on commitments, support for the launching and monitoring of PPP operations).

**Evaluation and Monitoring of Public-Private Partnership Projects**

26. Since the use of PPPs could serve as a significant source of financing for major capital and infrastructure projects under the GAP, our institutional framework needs to be adapted to the management of contracts of this kind. The law on public-private partnerships was passed in October 2016 and three implementing decrees were approved by the Council of Ministers in December 2016 to make it operational. These decrees take account of World Bank staff comments. The Support Unit for Public-Private Partnerships (CAPPP) under the Office of the President of the Republic is the central body at the national level which provides TA at all stages of the contracting process for PPP operations. A strategic support unit is in place under the Minister of Finance and it should guide the work on the assessment of fiscal risks related to GAP projects financed through PPPs. This unit will follow best practices and standards in the assessment of fiscal risks associated with PPPs (structural benchmark). It will assess these risks
using the Public-Private Partnership Fiscal Risk Assessment Model (PFRAME), which was developed jointed by the IMF and the World Bank, or any other model that the government may deem suitable.

**State-Owned Enterprises**

27. Mindful of the potentially significant fiscal risks associated with the management of SOEs, we undertook a comprehensive survey of the government’s portfolio. Work is under way to strengthen the professionalism of boards of directors and efforts to increase their accountability are also being stepped up. In addition, managers will be selected according to objective competency criteria and they will be subject to performance contracts between the government and the enterprises. These contracts will be finalized for all of the enterprises during 2017. The creation in June 2016 of the General Directorate for State Holdings and Denationalization was aimed at improving the financial monitoring of SOEs. Its capacities at this point are quite limited, however, and this means that it is not able to perform its mission effectively. We are therefore planning to increase its staffing in 2017 through the recruitment of around 30 employees. Efforts will also be undertaken to ensure that it has at its disposal more comprehensive information about public enterprises, in particular their financial statements and their budgets, within the legally established deadlines.

28. An audit program, as part of the review of SOEs and public agencies and coordinated by the BAI, is being carried out for SOEs that have already been audited, and the findings from these audits will be included in the report, which will be published (structural benchmark). This report will help us to limit financing through cross claims and debts, and thus to regulate the financial flows between the government and SOEs, which in turn will allow for a comprehensive survey of public debt.

29. In addition, the government has undertaken a rationalization of the public portfolio through: (i) the restructuring of the Benin Radio and Television Broadcasting Office (ORTB) and the National Food Aid and Security Office (ONASA); (ii) the liquidation of twelve (12) entities, including the National Company for the Promotion of Agriculture (SONAPRA), the National Price Stabilization Office (ONS), the Central Supply of Inputs (CAI-SA), the Mechanization Development Agency (ADMA), and regional action centers for rural development (CARDER); (iii) the leasing of district hospitals (Djidja, Cové, and Djougou); and (iv) the denationalization of factories for the processing of agricultural produce and the rice mills in Malanville and Glazoué, as well as other public enterprises whose financial situations are under review.

**Strengthening of Internal and External Control**

30. The 2014 PEFA report identified significant deficiencies in the audit function in Benin. The government would like to have an independent, transparent, and accountable audit function. The Office of the Auditor General has been dissolved, but the General Inspectorate of Finance and the other general inspectorates for the ministries are continuing to execute their activity programs. However, the BAI under the Office of the President of the Republic has been entrusted
with coordinating efforts to reorganize the internal and external audit structures for the State. The new structure for the organization of government control bodies and the plan for the strengthening and enhanced professionalism of auditors will be completed by End-September 2017. The Office of Analysis and Investigation is also responsible for arranging for specific audits in order to clarify the reform process or within the context of steps to assess the current state of affairs following the assumption of power by the government. As for the various audits that have been performed, the government chose to make public the summary audit reports presented to the Council of Ministers and to turn over to the justice system the cases that call for judicial investigations. The audit reports (regarding financial legal audits) for all public enterprises and the 30 largest administrative public agencies (EPA) will be published by 2020.

31. The draft Budget Execution Law for 2015 was, as provided for by law, submitted to the National Assembly by Decree No. 2016-617 of October 6, 2016, prior to the adoption of the 2017 budget law, and the relevant report by the Accounting Chamber is posted on the Supreme Court’s website (www.coursupremebenin.com). Finally, the government believes that an independent Court of Auditors, which meets international performance standards, should be put into place at the top of the Benin’s control structure. The creation of such an entity will therefore be included in the constitutional reform that the government is planning to adopt as soon as possible.

Promoting Financial Inclusion

32. More robust economic growth requires greater financial intermediation. In order to achieve this, we are planning to limit the bottlenecks in our financial infrastructure. The lack of property titles, information asymmetry, and the weakness of the judicial system are major obstacles. While financial soundness indicators do not raise immediate concerns in terms of financial stability, the quality of banks’ loan portfolios remains weak and limits lending to the private sector.

33. The high level of nonperforming loans has a negative impact on lending by banks, in particular lending to the private sector. The capital adequacy figure for banks is 8.8 percent (End-September 2016), just above the minimum of 8 percent (but significantly below the WAEMU average, which was 11.4 percent at End-June 2016. The nonperforming loan ratio, estimated at 23 percent, is one of the highest among WAEMU countries (the average is 18.4 percent), while the provisioning ratio remains weak at 15 percent of risk-weighted assets in 2016. By End-June 2017, all banks will be required to achieve a minimum equity capital figure of CFAF 10 billion. Those that have not yet achieved this target have submitted action plans to the BCEAO: of 14 banks, there are 6 that need to make efforts to reach the goal. The concentration of loans, primarily in the trade sector, which is closely linked to trade with Nigeria, makes the banks’ assets vulnerable to a slowdown in Nigeria. In addition, the growing exposure to Treasury notes and bonds has made banks more vulnerable to a deterioration in public finances and to a tightening of rates in the regional market.
34. Together with the BCEAO, the government has a major role to play in order to ensure the stability and soundness of the financial system. We are therefore carrying out a number of structural reforms to this end. We would like to establish a credit bureau. The Law on Credit Information Offices (BIC) was adopted by the National Assembly and promulgated by the President of the Republic on January 23, 2017. The adoption of this law means that Benin has established the legal framework required to launch BIC activities. We will take steps to support the Central Bank in this matter and to make the BIC operational by End-2017. By facilitating banks’ access to information about their customers regarding credit with other banks, the BIC will reduce credit risks, which will allow for a reduction in credit costs and development of the financial system. We are taking measures to facilitate the use of collateral to obtain bank loans. We will also work to promote the electronic registration of land titles, extending it to cover the entire country. The initiative contained in the amended 2016 budget law to eliminate registration fees has had the expected result and the number of land titles registered has increased.

35. We are strengthening the system for dealing with banking crises. The new framework will enable us to accelerate the resolution of one bank that was placed in receivership three years ago but that remains in operation and is likely to create liabilities for the government.

36. We believe that the microfinance sector is essential in order to promote access to the financial system for small business. With the aim of maintaining their viability and credibility, we will strengthen the supervision and regulation of microfinance institutions (MFIs). It turns out that 65.1 percent of authorized MFIs (with deposits of CFAF 88 billion at End-2015 out of a total of CFAF 93.2 billion) are in good financial health, while the condition of the other institutions is less sound. We will strengthen the supervisory authority by increasing the number of supervisors, in particular in rural areas, which is a necessary measure for timely oversight and enforcement of the regulations.

37. Out of a total of 721 microfinance initiatives surveyed in 2011, 495 were not authorized to operate; but with the public awareness efforts and support for some that show signs of viability, this number was brought down to 332 by End-2015. The unauthorized MFIs will be brought into line with the regulations or closed. Specifically, in 2017 a communication regarding clean-up of the microfinance sector initiated jointly by the Ministry of the Economy and Finance and the Ministry in Charge of Social Affairs will be submitted to the Council of Ministers with the aim of obtaining the government’s authorization to take tangible action against unauthorized MFIs. We are planning, on the one hand, to raise awareness among local elected officials in the departments of Zou, Collines, Borgou, and Alibori, and among religious denominations, and on the other hand, we intend to close some MFIs with respect to which the procedure for obtaining court rulings is sufficiently advanced.

Improving the Business Climate

38. The business climate in Benin is not conducive to the development of the private sector. Some progress has been made, however, in improving the business climate. Benin’s ranking in the Doing Business report has therefore improved recently, in recognition of our work on
simplifying the regulatory environment. But the bulk of the work remains to be done. Among the most significant challenges are poor governance and the precarious situation involving the generation and distribution of electricity.

**Governance**

39. One of our major problems is the poor enforcement of contracts. As a result of this, there is a great deal of distrust on the part of entities in the private sector with respect to the government. The GAP is therefore aimed at a radical reform of all relevant aspects of the judicial system, which we are undertaking with the assistance of our technical and financial partners. One example is the creation of commercial courts, which is provided for under the law containing amendments and additions to Law No. 2001-37 of June 10, 2002, on the organization of the judicial system in the Republic of Benin, and the law containing amendments and additions to Law No. 2008-07 on the code of civil, commercial, social, and administrative procedure in the Republic of Benin, which were enacted in September 2016 (structural benchmark). The next steps toward making these courts operational are: (i) the identification of buildings to house the Trade Court of Cotonou and the Trade Appeals Court of Porto Novo; (ii) the appointment of career and commercial court judges and the official installation of the courts in these two jurisdictions no later than May 31, 2017.

40. We are strengthening the effectiveness of the anti-corruption framework that has been put in place in recent years. In that perspective, the role of the ANLC is critical and it will be provided with the resources necessary to carry out its vital functions. We are committed to address the deficiencies in the asset declaration regime. In this regard, we will introduce, by end-August 2017, the required legislative amendments to (i) ensure dissuasive sanctions for absence of asset declaration, (ii) require comprehensive declaration of assets owned and beneficially owned, in Benin and abroad, by the high-level official, their family members and close associates, and (iii) allow for online publication of the asset declarations. In order to tackle impunity, the ANLC will introduce, by end-August 2017, an online system for monitoring judicial actions taken on the basis of reports from government oversight institutions.

**Energy policies**

41. A sufficient supply of high-quality electricity at affordable prices is an essential condition for the improvement in economic growth that we are seeking. Investments in the production and distribution of electricity are therefore major components of the GAP. They will reduce our dependence on imports, they will fill in the structural deficit, and they will meet the increase in demand that is expected. By 2021, we expect to satisfy a total demand of 500 megawatts, half of which will be produced within the country. The GAP makes provision for the construction of two thermal power stations in addition to the Djarala hydroelectric dam. It is also important to improve the system for the distribution of electricity. We are pleased to have received financing from one of our partners to improve the quality of our distribution network. In total, this investment will be equal to 5.0 percent of the 2016 GDP over five years. Within the context of this assistance, we have taken measures to strengthen the Beninese Energy and Electricity Company
(SBEE), which is responsible for importation and distribution. The measures already taken include: the recruitment of a new general manager and an assistant manager through a competitive hiring process; the appointment of members of the board of directors according to objective criteria; the establishment of a performance contract for the general manager; and an audit of SBEE’s debt and arrears, together with a restructuring plan. A new formula for the adjustment of consumer prices is currently under development. We have also introduced competition into electricity imports.

42. In order to provide for a bridging mechanism until the new generating capacity is available, and taking into account the fact that imports cannot be increased reliably, the SBEE has leased a temporary production facility. A 70-megawatt production facility has been in service since 2014, to which another 80 megawatts will be added starting in January 2017. Unfortunately, this production output is more expensive than our average import price (CFAF 120-150 per kilowatt-hour, compared to CFAF 58 per kilowatt-hour). The government therefore decided to subsidize the leasing and fuel costs of these temporary installations.

C. Technical Assistance and Capacity Development

43. As with low-income countries, Benin faces challenges in terms of capacity development and it benefits from technical assistance provided by the IMF, the World Bank, and other development partners. The technical assistance is focused on increasing the mobilization of domestic resources, strengthening public financial management, and improving statistics, in particular national accounts. The technical assistance provided to Benin by the IMF has been directed strategically at the consolidation of the macroeconomic framework and the implementation of structural reforms. Efforts to carry out previous technical assistance recommendations remain uneven, while the principal structural reforms are lagging behind owing to a lack of implementation capacity.

PROGRAM FOR 2017

44. For 2017, growth in real GDP should benefit from the expected improvement in the global economy, an expansion of agricultural output, and medium- and long-term capital injections for investment purposes. Inflation should return to its lower trend levels and remain below the WAEMU convergence threshold of 3 percent. In order to support growth, however, the structural reform program should be carried out in its entirety and within the established timeframe, including measures to boost the mobilization of domestic revenues, to improve the quality and effectiveness of public spending, and to strengthen governance and institutions with a view to promoting the development of the private sector.

A. Macro-Fiscal Framework for 2017

45. In accordance with the medium-term goals, the macro-fiscal framework for 2017 calls for an increase in budget revenues equal to 0.7 percentage point of GDP to 15.4 percent, while
public spending should grow by 3.3 percentage points of GDP, reaching 24.7 percent of GDP, which would mean an overall deficit equal to 9.3 percent of GDP. The increase in public spending would come from a marked rise in capital expenditures, which would be equal to 10.1 percent of GDP in 2017, compared to 6.0 percent in 2016. This stimulus for investment would be compensated for in part by a rationalization of current spending, which would decline by 1.2 percent of GDP. The amount of capital expenditures for 2017 would nevertheless be below the figure set in the 2017 budget law as adopted by the parliament in December 2016, which was equal to 15.7 percent of GDP. This figure brought the public deficit to 14.4 percent of GDP. In order to ensure public debt sustainability, we will limit publicly funded capital expenditures to an amount not to exceed CFAF 550 billion, i.e. 68 percent of the amount approved. The 2017 budget law paves the way for an increase in capital expenditures financed by greater mobilization of revenues, rationalization of current spending, bond issues in the regional market, and optimization of financing within the framework of public-private partnerships.

**Tax Policy**

46. In order to mobilize more revenues, the 2017 budget law calls for the creation of several taxes which, coupled with the efforts to strengthen the tax and collection administrations, is expected to generate additional resources estimated at CFAF 38.4 billion, or 0.7 percent of GDP (structural benchmark). These new taxes include:

- a tax on gambling (generating revenues estimated at CFAF 1 billion);
- a special tax on unprocessed agricultural products (generating revenues estimated at CFAF 4 billion);
- a tax on exports of scrap metal (generating revenues estimated at CFAF 3 billion);
- a tax on four-wheel motor vehicles (expected revenues estimated at CFAF 3 billion);
- a tax on seeds, fibers, and cashew nuts, and its extension to all unprocessed products (generating revenues estimated at CFAF 4 billion); and
- a turnover tax on GSM operators (generating revenues estimated at CFAF 1.4 billion); and
- efforts to recover tax arrears (approximately CFAF 22 billion).

In addition to these fiscal measures, the tax administration is pursuing reforms of an organizational and administrative nature that will have a tangible impact on revenues. These include: (i) the establishment of a single database for taxpayers subject to the VAT; (ii) implementation of a tax and customs data platform; (iii) heightened tax supervision among sensitive sectors (Banking - Telecommunications - Insurance - Oil); (iv) withholding of all of the VAT at the source for enterprises subject to the VAT; (v) application of the transaction value in customs processing; (vi) resumption of the import verification program mechanism, as well as efforts to combat fraud. These administrative measures are expected to generate around
CFAF 60 billion on a full-year basis and safeguard tax resources over the medium term. Furthermore, as indicated above, a strategy to recover tax arrears will be put into place with the aim of the boosting the level of expected revenues over the coming years. This strategy is based on the recent diagnostic work performed by the January 2017 FAD TA mission on the levels of outstanding balances, valued at CFAF 107.6 billion at End-December 2016. The goal is to reduce this stock of outstanding balances by at least 30 percent by December 2017.

47. On the other hand, we made the decision to eliminate transfer taxes with the aim of stimulating the real estate market (the estimated cost of the measure is CFAF 12 billion in a full year). In order to make more systematic improvements in our fiscal policy, a Fiscal Policy Unit will be created in 2017 under the General Tax Directorate (DGI). The staff of this unit will be recruited in June 2017. The personnel who are recruited will receive targeted training and will be capable of performing studies on the impact of the reforms that are to be implemented in order to mobilize more domestic resources. In addition, several approaches to improving revenues have been suggested by IMF technical assistance missions and other partners, as well as our own specialists. These approaches include: (i) simplification of the personal income tax (IRPP); (ii) simplification of the combined business tax; (iii) protection of the corporate tax base against aggressive tax optimization behavior (updating of the legislation on transfer pricing); (iv) management of tax exemptions; and (v) the establishment of a tax mediator for small and medium-sized businesses.

Tax Expenditures

48. Tax expenditures were reported as CFAF 128 billion in 2016, which was an increase of CFAF 11 billion compared to the previous year. Our goal is to contain the rise in these expenditures by identifying and eliminating those that are no longer justified from an economic and social standpoint, or that do not have a legal basis. From now on, tax expenditures not provided for under the codes (investment, mining, and oil) may no longer be granted by the sectoral ministries by a discretionary decision without the prior authorization of the Minister of Finance (Article 1103-1 of the 2017 budget law). Furthermore, the 2017 budget law calls for the elimination of exemptions for power companies. Our efforts will be facilitated by the expiration in June 2017 and 2018 of the exemptions enjoyed by telecommunications companies with regard to GSM licensing. In addition, we are committed to performing a comprehensive analysis of tax expenditures before End-2017 in order to design a strategy aimed at containing and streamlining these expenditures. The measures that are decided upon will be included in the 2018 budget law (structural benchmark).

B. Program Monitoring

Prior Actions

49. With the aim of ensuring the proper execution of this program and in line with the urgency that we are assigning it, we have already undertaken a number of significant measures some of which are prior actions, including:
• the creation in June 2016 of the Office of Analysis and Investigation, which became operational in September 2016 and is responsible for the GAP implementation and monitoring mechanism, in particular its flagship projects component;

• approval by the Minister of Finance of the 2017–21 POSAF, following its adoption by the Committee of Directors of the Ministry of Finance;

• the effective integration of control activities of the tax and customs general directorates through a shared computer platform maintained by the GDI, the Single Taxpayer Identification No. (IFU), and the imposition of penalties for importers who do not have an updated IFU starting in February 2017;

• the establishment of a framework for the preparation and monitoring of the government’s cash flow plan;

• an agreement on the 2017 budget in accordance with the program; and

Quantitative Performance Criteria and Structural Benchmarks

50. We have established quantitative performance criteria for End-June and End-December 2017 and indicative targets for End-March and End-September 2017 (Table 1) with the aim of making provision for monitoring of the program with the IMF. The above prior actions and the structural benchmarks, as well as the macroeconomic justifications, are described in Table 2. All the prior actions have been implemented. The first and second program reviews are expected to be completed on or after October 31, 2017 and April 30, 2018, respectively.
Table 1. Benin: Proposed Quantitative Performance Criteria and Indicative Targets, 2017

(With CFA francs)

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>Est. Prog.</td>
<td>Prog.</td>
<td>Prog.</td>
<td>Prog.</td>
<td>Prog.</td>
</tr>
<tr>
<td>A. Quantitative performance criteria</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net domestic financing of the government (ceiling)</td>
<td>232.8 70.1</td>
<td>116.1 183.9</td>
<td>177.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic primary balance (excluding grants) (floor)</td>
<td>-150.6 -64.7</td>
<td>-73.1 -139.0</td>
<td>-171.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue (floor)</td>
<td>745.7 182.9</td>
<td>386.1 602.9</td>
<td>843.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Continuous quantitative performance criteria (ceilings)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulation of external payments arrears</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td></td>
</tr>
<tr>
<td>Ceiling on the present value of new external debt contracted or guaranteed by the government</td>
<td>211.5 402.8</td>
<td>402.8 402.8</td>
<td>402.8 402.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulation of domestic payments arrears</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td></td>
</tr>
<tr>
<td>Contracts by the government for the prefinancing of public investments projects</td>
<td>... 0.0</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td>0.0 0.0</td>
<td></td>
</tr>
<tr>
<td>C. Memorandum Items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority social expenditure (floor)</td>
<td>84.8 36.3</td>
<td>85.0 125.0</td>
<td>160.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Memorandum item: Budgetary assistance</td>
<td>11.6 16.2</td>
<td>16.2 39.2</td>
<td>55.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Beninese authorities; IMF staff estimates and projections.

1 The terms in this table are defined in the Technical Memorandum of Understanding (TMU).
2 The performance criteria and indicative targets are cumulative from the beginning of the calendar year.
3 The performance criterion on net domestic financing is automatically adjusted as indicated in the TMU.
4 If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU.
5 If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.
6 Gross disbursements, not adjusted for debt service obligations.
<table>
<thead>
<tr>
<th>Measures</th>
<th>Dates</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue administration</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have the Strategic Plan for the Tax</td>
<td>Prior action</td>
<td>Modernize the tax administration to increase domestic revenue mobilization.</td>
</tr>
<tr>
<td>Administration (POSAF) approved by the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Finance.</td>
<td></td>
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</tr>
<tr>
<td>Integrate the Customs and Tax</td>
<td>Prior action</td>
<td>Boost domestic revenue collection.</td>
</tr>
<tr>
<td>Administrations’ computer systems to</td>
<td></td>
<td></td>
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<tr>
<td>strengthen their coordination.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree upon a 2017 budget consistent</td>
<td>Prior action</td>
<td>Preserve fiscal sustainability.</td>
</tr>
<tr>
<td>with the ECF-supported program.</td>
<td></td>
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</tr>
<tr>
<td>Review and quantify all tax expenditures</td>
<td>End-September</td>
<td>Boost domestic revenue collection.</td>
</tr>
<tr>
<td>and agree on a time-bound strategy to</td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>suppress all tax expenditures that are not</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in line with the WAEMU directives.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public financial management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put into place a framework for the</td>
<td>Prior action</td>
<td>Ensure effective cash flow management.</td>
</tr>
<tr>
<td>preparation and monitoring of the government’</td>
<td>End-June 2017</td>
<td></td>
</tr>
<tr>
<td>s cash flow plan.</td>
<td>(then on an</td>
<td></td>
</tr>
<tr>
<td>ongoing basis)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare monthly plans for cash flow</td>
<td>End-June 2017</td>
<td>Enhance the transparency, timeliness, and accuracy of budget information.</td>
</tr>
<tr>
<td>forecasts and quarterly comprehensive</td>
<td>(then on an</td>
<td></td>
</tr>
<tr>
<td>assessments of budget execution.</td>
<td>ongoing basis)</td>
<td></td>
</tr>
<tr>
<td>Increase the transparency of procurement</td>
<td>End-June 2017</td>
<td>Ensure the optimal utilization of resources and encourage competition in</td>
</tr>
<tr>
<td>operations by publishing on the internet all</td>
<td></td>
<td>the private sector</td>
</tr>
<tr>
<td>basic information about procurement.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conduct a public expenditure review with</td>
<td>End-September</td>
<td>Improve the quality of public expenditure.</td>
</tr>
<tr>
<td>World Bank assistance.</td>
<td>2017</td>
<td></td>
</tr>
</tbody>
</table>
**Table 2. Benin: Prior Actions, Structural Benchmarks, and Macroeconomic Rationale (concluded)**

### Public investment

<table>
<thead>
<tr>
<th>Prior action</th>
<th>End-June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish a Unit responsible for the implementation of the GAP, notably the Flagship projects.</td>
<td>Improve the outlook for growth and contribute to debt sustainability.</td>
</tr>
<tr>
<td>Launch the Strategic Support Unit under the Ministry of Finance, which is responsible <em>inter alia</em> for evaluating the fiscal risks associated with public-private partnerships.</td>
<td>Promote transparency and reduce contingent liabilities.</td>
</tr>
<tr>
<td>Develop a multi-year commitment framework for investment projects.</td>
<td>Ensure the availability of information on stipulations and conditions in order to comply with the debt limit policy.</td>
</tr>
</tbody>
</table>

### Debt management and sustainability

<table>
<thead>
<tr>
<th>End-December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extend the coverage, under the medium-term debt strategy, to the debt of state-owned enterprises, after completion of data collection on their financial condition and to contingent liabilities.</td>
</tr>
<tr>
<td>Improve the capacity for active debt management and ensure debt sustainability.</td>
</tr>
</tbody>
</table>

### Reform of state-owned enterprises

<table>
<thead>
<tr>
<th>End-September 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collect data on the debt of state-owned enterprises and adopt a monitoring mechanism.</td>
</tr>
<tr>
<td>Ensure better monitoring of contingent liabilities and improve public debt management.</td>
</tr>
</tbody>
</table>

### Business climate and financial inclusion

<table>
<thead>
<tr>
<th>Prior action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve governance and the business climate.</td>
</tr>
<tr>
<td>Establish a credit bureau and make it operational.</td>
</tr>
<tr>
<td>Improve the efficiency of the financial sector and intermediation.</td>
</tr>
</tbody>
</table>
Attachment II. Technical Memorandum of Understanding

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

PROGRAM ASSUMPTIONS

2. Exchange rates under the program. For the purposes of this Memorandum, the value of transactions denominated in foreign currencies shall be converted into the national currency of Benin (the CFA franc, or CFAF), on the basis of the exchange rates agreed upon for the program projections. The key exchange rates are presented below.¹

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>Exchange Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFAF/US$</td>
<td>592.7</td>
</tr>
<tr>
<td>CFAF/euro</td>
<td>655.96</td>
</tr>
<tr>
<td>CFAF/SDR</td>
<td>836.57</td>
</tr>
</tbody>
</table>

Definitions

3. Unless otherwise indicated, “government” is understood to mean the central government of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government’s flow-of-funds table (TOFE).

4. The definitions of “debt” for the purposes of this Memorandum is set out in point 8 of IMF Executive Board Decision No. 6230-(79/140), as amended on December 5, 2014, by Executive Board Decision No. 15688-(14/107):

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

¹ Exchange rates are average for 2017.
i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

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

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

(b) The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). Specifically, the 10-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years, while the six-month average of CIRRs will be used for loans with shorter maturities. To both the 10-year and 6-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years, 1.00 percent for repayment periods of 15–19 years, 1.15 percent for repayment periods of 20–29 years, and 1.25 percent for repayment periods of 30 years or more).

(c) Domestic debt is defined as debt denominated or serviced in CFA francs, unless it is contracted with another member state;

(d) External debt is defined as debt denominated in any currency other than the CFA franc and debt in CFA francs contracted with another member state.
QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

5. Net domestic financing (NDF) of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

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

7. The figures deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market calculated by the BCEAO and the figures for nonbank financing calculated by the Treasury of Benin.

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

Performance Criteria and Indicative Targets

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 70.1 billion at End-March 2017; CFAF 116.1 billion at end-
June 2017; CFAF 183.9 billion at end-September 2017; and CFAF 177.7 billion at end-December 2017. The ceiling is a performance criterion for End-June and End-December 2017, and an indicative target for End-September 2017.

**Adjustments**

10. Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 15 billion at End-June 2017 and CFAF 25 billion at End-December 2017.

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

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 16.2 billion at End-March 2017; CFAF 16.2 billion at End-June 2017; CFAF 39.2 billion at End-September 2017; and CFAF 55.0 billion at End-December 2017.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 8.8 billion at End-March 2017; CFAF 24.8 billion at End-June 2017; CFAF 32.4 billion at End-September 2017; and CFAF 50.4 billion at End-December 2017.

**B. Floor for Basic Primary Fiscal Balance**

**Definition**

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

13. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -64.7 billion at End-March 2017; CFAF -73.1 billion at End-June 2017; CFAF -139.0 billion at End-September 2017; and CFAF -171.3 billion at End-December 2017. The floor is a performance criterion for End-June and End-December 2017, and an indicative target for End-September 2017.

**C. Floor for Total Government Revenue**

**Definition**

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

**Performance Criteria and Indicative Targets**

15. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 182.9 billion at End-March 2017; CFAF 386.1 billion at End-June 2017; CFAF 602.9 billion at End-September 2017; and CFAF 843.9 billion at End-December 2017. The floor is a performance criterion for End-June and End-December 2017, and an indicative target for End-September 2017.

**D. Non-Accumulation of New Domestic Payments Arrears by the Government**

**Definition**

16. Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (CAA) and the Treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement.

**Continuous Performance Criterion**

17. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.

**E. Non-Accumulation of External Payments Arrears by the Government**
**Definition**

18. External public payments arrears are defined as the sum of payments due, but not paid, by the government at the due date specified in the contract, taking into account any applicable grace period, on external debt of, or guaranteed by, the government.

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

**F. Present Value of New External Debt Contracted or Guaranteed**

**Definition**

20. This performance criterion applies not only to debt as defined in paragraph 4a, but also to commitments contracted or guaranteed by the government (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 4c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

21. The concept of “government” used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new external debt, includes the government, as defined in paragraph 2, local governments, and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

22. Changes to the ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF. The performance criterion on the ceiling on the contracting or guaranteeing by the government of new external debt maturing in one year or more will be continuously monitored throughout the program.

**G. Ceiling on Pre-Financing Contracts for Public Investments**

**Definition**

23. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken, normally concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a commercial bank or group of commercial banks; (ii) the government, including, for the avoidance of doubt, the Minister of Finance, guarantees this loan and signs an unconditional and irrevocable
agreement to replace the private entity to honor the full amount of principal and interest of the loan.

*Continuous Performance Criterion*

24. The government undertakes to refrain from entering into any pre-financing contracts during the life of the program. This performance criterion with respect to pre-financing contracts for public investment will be continuously monitored throughout the program.

**INDICATIVE TARGETS**

**A. Floor for Priority Social Expenditures**

25. Priority social expenditures are determined in relation to the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures inter alia in the following sectors: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education, and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFiP).

*Definition*

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

<table>
<thead>
<tr>
<th>Budget code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>37</td>
<td>Ministry of Energy, Water, and Mines</td>
</tr>
<tr>
<td>39</td>
<td>Ministry of Agriculture, Livestock, and Fisheries</td>
</tr>
<tr>
<td>26</td>
<td>Ministry of Justice</td>
</tr>
<tr>
<td>31</td>
<td>Ministry of Labor, the Civil Service, and Social Affairs</td>
</tr>
<tr>
<td>44</td>
<td>Ministry of Higher Education and Scientific Research</td>
</tr>
<tr>
<td>62</td>
<td>Ministry of Nursery School and Primary School Education</td>
</tr>
<tr>
<td>63</td>
<td>Ministry of Secondary and Technical Education and Professional Training</td>
</tr>
<tr>
<td>34</td>
<td>Ministry of Living Standards and Sustainable Development</td>
</tr>
</tbody>
</table>
INFORMATION FOR PROGRAM MONITORING

B. Data on Performance Criteria and Indicative Targets

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

Every month:

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

Every quarter:

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

C. Other Information

28. The government will provide IMF staff with the following data:

Every month:

- banking supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.
- data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and

- data on the stock of external debt, external debt service, the signing of external loans and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

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