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

November 26, 2019

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

THE MINISTER

Cotonou, November 26, 2019

TO

Madame Kristalina GEORGIEVA
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Madame Georgieva:

I am pleased to inform you that Benin has made significant progress in implementing the Government Action Program (GAP). Implementation of the GAP, along with the introduction of important structural reforms in the context of the economic and financial program (2016-2019) concluded with the International Monetary Fund (IMF), have led to sustained economic growth. This growth has been achieved in a context of low inflation, control of the budget deficit, and a favorable medium-term outlook for the current account balance.

The economic recovery that began in 2016 is ongoing. In 2018, it was essentially driven by cotton production, port activity, and public investment. Growth will remain robust in 2019, in part owing to strong performance in the agricultural, public constructions, and retail sectors. Inflation is expected to be negative in 2019 at -0.6 percent owing to a substantial increase in agricultural output and a decline in water utility prices.

The budget deficit (including grants) was held at 2.9 percent of GDP in 2018, well below the initially programmed level (4.7 percent of GDP), essentially reflecting a decrease in spending. In 2019, we expect the deficit to shrink further and fall to 2.3 percent of GDP. For 2020, the goal is to keep the deficit under 2 percent of GDP, in line with the West African Economic and Monetary Union (WAEMU) fiscal convergence criterion.

Finally, the current account deficit (including grants) deteriorated slightly in 2018 owing to better accounting of informal imports, which increased significantly. Exports continued their strong growth, driven mainly by agricultural production and an increase in exports of cashew nuts. Nevertheless, the current deficit remains fairly low at 4.5 percent of GDP.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in the implementation of the economic and financial program supported by the Extended Credit Facility (ECF) arrangement and presents the additional measures that we expect to take to shore up our achievement of the main objectives for 2019 and 2020. In this context, we propose a prior action relating to the submission to the parliamentary commission of a 2020 budget that is consistent with the program's objectives and a new structural benchmark related to the inclusion of fiscal measures to increase revenue by CFAF 45 million in the draft 2020 budget approved by the government.

Overall, the results of the economic and financial program are very satisfactory. All of the quantitative performance criteria for end-June 2019 and the continuous performance criteria have been met. The structural benchmark for September concerning the diagnostic assessment of barriers to trade was met on time.

The government is convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of its program. It will take all additional measures that may be necessary to this end and will consult the IMF on 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 concerning such consultations. The government will provide IMF staff with any information that may be needed to monitor implementation of the program and achievement of the program objectives, as set out in the attached Technical Memorandum of Understanding (TMU). The government authorizes the IMF to publish this letter and its attachments on its external website, as well as the IMF staff report, following approval by the IMF Executive Board of the fifth review under the ECF arrangement.

The government would therefore like to request the completion of the fifth review under the ECF arrangement and the disbursement of SDR 15.917 million (around \$22.055 million). Finally, in view of the expiration of the ECF arrangement on April 6, 2020, we hereby request that the arrangement be extended until July 31, 2020. This extension is needed to provide enough time for the completion of the sixth and final review under the arrangement and the related disbursement. We remain committed to implementing sound macroeconomic policies.

Sincerely yours,

/s/

Romuald WADAGNI

Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2019-2020

This report is an update of the Memorandum of Economic and Financial Policies (MEFP) of May 2019, attached to the staff report for the fourth review of the ECF-supported program. The document describes recent economic developments in Benin and sets out the policies that the government intends to implement in the second half of 2019 and in 2020. The aim of these policies is to facilitate the continuation of fiscal consolidation and domestic revenue mobilization efforts, as well as to strengthen domestic and external economic stability. Implementation of the quantitative performance criteria and structural benchmarks up to end-June 2019 will be assessed in this MEFP.

RECENT ECONOMIC DEVELOPMENTS

1. The Beninese economy is continuing to experience dynamic growth. In 2018, growth was driven by the record level of cotton and vegetable production and strong port activity. The tertiary sector (port activity in particular) and the primary sector (agriculture in particular) were the main contributors to growth, estimated at 6.7 percent. Economic activity continued to accelerate in the first half of 2019, driven by the agricultural, trade, and construction sectors. Inflation, affected by strong agricultural production and a decline in prices for public utilities, in particular water, followed a downward trend, dropping by 1.4 percent during the first nine months of 2019 compared to the same period in the previous year.
2. On August 20 Nigeria decided unilaterally to close the border with Benin.¹ This closing of the border had a negative impact on customs revenues, and it is expected to result in a slight slowdown in growth in 2019, which is expected to reach 6.4 percent.
3. The quarterly trade data recently published by the National Institute of Statistics and Economic Analysis (INSAE) confirm that exports of goods grew in the second quarter of 2019, with an increase of 22.4 percent compared to the first quarter. They are driven mainly by sales of cotton, and to a lesser extent by higher sales of edible nuts, such as cashew nuts. Imports of goods declined in the second quarter of 2019, posting a drop of 32.1 percent compared to the first quarter. Reforms aimed at boosting the technical capacities of farmers, expanding farmland, and distributing higher-quality seeds resulted in an increase in agricultural output, which also led to a contraction in food imports. In the second half of the year, a slight downturn in informal exports to Nigeria is expected, which could lead to a deterioration in the current account in 2019.
4. The rebasing of the national accounts led to a reduction in the ratio of public debt to GDP. It is now estimated at 41.4 percent of GDP in 2019. This year is expected to mark a shift in

¹ This measure affects not just Benin, but also Niger, Chad, and Cameroon.

the trajectory of public debt. After five years of upward movement, debt as a percentage of GDP is expected to stabilize in 2019 as a result of the fiscal consolidation and sustained economic growth. Benin's risk of debt distress is considered to be moderate and remains unchanged from the results of the previous debt sustainability analysis (DSA) performed in May 2019.

5. In the banking sector, banks' overall capital ratio improved in the second half of 2018 (from 7.6 percent in June 2018 to 8.2 percent at end-December 2018), while remaining below the regulatory threshold of 8.625 percent required for end-2018. The concentration of the banks' loan portfolio (loans to the 5 largest borrowers/equity capital) declined considerably, falling from 103.3 percent at end-June 2018 to 90.4 percent at end-December 2018. Nevertheless, credit and liquidity risks remain high. The high level of nonperforming loans persists – its level rose from 18.9 percent at end-June 2018 to 21.6 percent at end-December 2018. The liquidity ratio (liquid assets as a percentage of total assets) is at the lowest level since 2005 (12.5 percent at end-December 2018).

IMPLEMENTATION OF THE 2019 PROGRAM

A. Program Performance

6. Program implementation is very satisfactory. The available data and information show that all the quantitative performance criteria (QPCs) at end-June 2019 were met. As far as the structural benchmarks are concerned, the only one set for end-September, regarding the diagnostic assessment of barriers to trade, was met. The status of the QPCs at end-June 2019 is as follows:

- *Net domestic financing (NDF) of the government*, defined as the sum of net bank credit to the government and net nonbank financing of the government, amounted to CFAF -50.4 billion under a ceiling of CFAF -38 billion.
- *The basic primary fiscal balance*, defined as the difference between total fiscal revenue and basic primary fiscal expenditures, amounted to CFAF 50.7 billion with a floor set at CFAF 44.5 billion.
- *Total government revenue*, which includes tax and nontax revenue – but excludes foreign grants, the revenue of autonomous entities, and privatization proceeds – amounted to CFAF 522.8 billion, compared to a floor of CFAF 505.5 billion.

B. Rebasing of the National Accounts

7. We rebased our national accounts in 2019. In addition to updating the base year from 2007 to 2015, we also implemented the *System of National Accounts 2008*. As such, the rebasing exercise made use of improved GDP compilation methods, which strengthened the quality of

data and ensured consistent methodological treatment. This allows for a better understanding of changes in the structure of national economic activity and changes in consumption behavior since 2015.

8. Following the rebasing exercise, the trajectory of Benin's GDP was revised upward by almost 37 percent. The size of the change reflects higher agricultural output than before, which was largely consumed by households, and to a lesser extent, was exported.

C. Execution of the 2019 Budget and Expenditure and Revenue Program

9. Fiscal consolidation continued in the first half of 2019. The containment of expenditure and the improvement in domestic resource mobilization led to an estimated fiscal deficit (on a commitment basis, grants included) of CFAF 30.4 billion (0.4 percent of GDP in 2019). The sharp reduction in the fiscal deficit in the first half of 2019 can be explained primarily by the underperformance of externally financed public investment. The mobilized revenue at end-June 2019 amounted to CFAF 522.8 billion, compared to an initial program target of CFAF 505.5 billion. This strong revenue performance is explained by the very good performance of nontax revenue (CFAF 89.6 billion, compared to an initial target of CFAF 77.4 billion), and domestic tax revenue (direct and indirect), which made up for the shortfall in customs revenue.

10. The strong performance of domestic tax revenues is explained by the successful mobilization of revenues under the 2019 Budget Law. Tax expenditures are expected to decrease by an amount equivalent to 0.7 percent of GDP in 2019 and **before end-November 2019 we will put into place a mechanism for the monitoring and verification of investments benefiting from exemptions**. In addition, the budget provided for the adoption of other tax-related measures such as a withholding tax on hydrocarbon sales carried out in Benin by nonresidents, enlargement of the base of the visitors' tax in hotels and similar establishments, as well as the transfer of responsibility for collection of the tax to the Directorate General of Taxes (DGI), and an increase in the rate of the tax on tobacco and cigarettes.

11. Reforms aimed at modernizing the financial authorities continue. At the DGI, the key reforms are focused on modernizing the procedures and means of payment in the first half of 2019, including:

- The rollout of the tax management system (SIGTAS) at three Taxation Centers for Medium-Sized Enterprises (CIMEs), namely the Coastal 1, Coastal 2, and Borgou-Alibori CIMEs as of February 1, 2019 through the Project to Support the Growth of Domestic Revenue in Benin (PAARIB). This rollout marked the launch of the electronic filing system for tax returns. Electronic payment via the e-service platform has been added to the electronic filing capability, thus completing the electronic procedures available at these centers. This reform enables medium-sized enterprises to file and pay taxes electronically, thereby making tax procedures more flexible. It provides the DGI with access to a

database of taxpayer returns and allows for limited contact between taxpayers and tax agents.

- The launch of the “e-Balance Sheet” platform in June 2019 for the online filing of businesses’ financial statements. This reform is intended to: (i) allow for the collection and safekeeping of financial statements; (ii) provide for access to a reliable database; (iii) facilitate the handling of financial statements; (iv) reduce the cost of collecting taxes; and (v) improve user services and correct unequal treatment. The reform also offers a number of advantages for: (i) taxpayers (by reducing the stress of meeting filing deadlines as much as possible and speeding up filing procedures, reducing the cost of the production of financial statements, and obtaining an electronic filing certification online); and (ii) other partners of the DGI, including the Central Bank of West African States (BCEAO), INSAE, and the Commercial Court (through electronic collection of financial statements and easier use of data contained in these statements).

12. With regard to customs, progress was made in effective implementation of the one-stop foreign trade window (Guichet unique du commerce extérieur, GUCE), with the objective to minimize the use of paper documents in customs clearance operations. Since the first six months of 2018: (i) the GUCE portal is available; (ii) the interface between the GUCE and the goods tracking system to improve cargo monitoring is operational; and (iii) import intentions are now centralized in the GUCE, which, among other things, will help us improve our customs revenue forecasts. We intend to continue the serious efforts to improve the collection rate for customs revenues. Indeed, customs authorities collect only 5 percent of the duties resulting from the detection of infractions during the control process. We are committed to ensuring that the Directorate General of Customs (DGD) has an effective collection service and is vigorously pursuing the procedures and penalties provided for by law. **In order to build the capacity of the customs service to assess and mitigate risks, we have decided to strengthen the statistical monitoring service by adding new statisticians to the staff (before end-December 2019).**

13. With a view to rationalizing public expenditure, since 2016 we have consolidated the wage bill. The key measures implemented to hold back the pace of wage bill increases have included: (i) the biometric census of civilian personnel, which identified 1,355 ghost workers; (ii) use of the banking system for bonuses and allowances not included on pay slips since 2017; and (iii) the repeal of several decrees and regulations that systematically granted benefits. The savings realized through these measures are being allocated in part to provide for the settlement of salary commitments of previous governments to civil servants.

14. We will continue to improve the effectiveness of public investment. A recent IMF technical assistance mission in February 2019 noted progress in the planning of public investment with: (i) the adoption of a decree aimed at formalizing the technical and organizational procedures for the management of public investment; (ii) the linking of various planning tools (the Government Action Program, the National Development Plan, the Growth for

Sustainable Development Program, etc.); and (iii) the improved coordination between local government investment plans and those of the central administration. Progress was also noted in the allocation and execution of public investments. Nevertheless, there are still some weaknesses, including: (i) the procurement plans and statistics on public procurement are not comprehensive; (ii) the information systems are not coordinated and lack sufficient interfaces; and (iii) the ex-ante evaluation of projects is still inadequate. We will continue to carry out the recommendations contained in the follow-up report on evaluation of public investment management with a view to improving their effectiveness.

D. Public Debt Management

15. With a view to diversifying the sources of financing, in March 2019 we issued our first Eurobond, which was met with great success in the market. The amount of the issuance was 500 million euros (equivalent to 3.9 percent of GDP), with a weighted maturity of 6 years, an interest rate of 6 percent, and a 3-years repayment plan, over the period 2024-2026. The terms of the Eurobond are better than those of securities issued in the regional financial market during the same period, such as the 5-year bond issued by the Beninese government in the regional market at the beginning of March 2019 at an interest rate of 6.99 percent, for example. The Eurobond issuance did not result in an increase in overall debt, since it was offset entirely by a decline in domestic borrowing. Ultimately, the debt sustainability analysis confirms the moderate risk of debt distress, which has not changed since the conclusion of the May 2019 DSA.

16. With a view to providing for better management of public debt, the *Caisse Autonome d'Amortissement* (the Autonomous Amortization Fund, or CAA) has undertaken various reforms related to technical capacity building. This year, it undertook the recruitment of an Audit and Compliance director, as well as an Audit Service manager. The audit team worked on: (i) the drafting and adoption of an internal audit charter; (ii) the preparation of a risk map; and (iii) the operational risk management procedure. The CAA also undertook the creation of a project monitoring department responsible for disbursements, tracking the progress of projects, and the review of project portfolios by the lender and sectoral ministry. With regard to reporting, the CAA website has also been completely redesigned and information is updated regularly. Statistical bulletins and some public debt documents are published in English to make them accessible to international investors. A new monthly bulletin in English has been prepared for their use.

E. Public Enterprise Reform

17. Public enterprises continue to be a burden on the government budget owing to their weak economic and financial performance. New auditors have been appointed at the 189 public enterprises and government offices. The government has also validated the new draft law on public enterprises. This law, which has been submitted to the National Assembly but has not yet been adopted, covers the creation, organization, and operation of public enterprises and aims to improve their governance and thus their economic and financial performance. The future law

calls for close government monitoring of the economic and financial position of public enterprises. Public enterprises will henceforth be required to transmit their financial statements – accompanied by audit reports – to the Ministry of Economy and Finance by the prescribed deadline. Moreover, a consolidated report on the economic and financial position of public enterprises will be attached to future budget laws once the law has been adopted.

18. To limit the impact of public enterprises on the budget, the government also plans to define a dividend policy for each enterprise in order to make them accountable for achieving results while ensuring financial management consistent with their development. The government has concluded performance contracts with the Autonomous Port of Cotonou and the Société Béninoise d'Énergie Électrique (SBEE) with support from the Millennium Challenge Corporation. We plan to expand this measure to other public enterprises once the new law has been passed.

F. Governance Reforms

19. In the area of public audit, important steps have been taken in the context of reforming the administrative control bodies. The objective of this reform is to facilitate the creation of a performance culture in the government and step up the fight against impunity by reorganizing the control bodies and implementing measures aimed at their professionalization, by: (i) making the Inspectorate General of Finance (IGF) the central body responsible for the operational coordination of the activities of the government's internal audit units and for monitoring the actions taken by the various ministries in response to the main audit recommendations; (ii) putting the sectoral ministries back at the center of the ministries' internal control system; (iii) finding a long-term solution to the shortage of quality human resources within the government's internal audit bodies; (iv) reducing the vulnerability of audit institutions and increasing their contribution to the effectiveness of services; and (v) providing auditors with sufficient resources to perform their assignments. To that end, the government overhauled the regulatory framework with the issuance of three decrees. The new texts formalize a paradigm shift and provide for transitioning from the "inspection-verification" approach to the "internal audit" concept in all its forms. In addition, the aim of the new "internal audit" approach is to bring value added to managers, particularly through advisory assistance, with a view to attaining the strategic, operational, and regulatory objectives. The proposed texts will also enable Benin to adopt international standards and overcome the institutional and regulatory obstacles hindering the effectiveness of internal control and audit activities within the government of Benin.

20. In the judicial area, important reforms have been undertaken this year. Two commercial courts were created and then inaugurated in 2018 following: (i) the identification of buildings to house the Commercial Court of Cotonou and the Court of Commercial Appeals of Porto Novo; and (ii) the appointment of professional and consular judges, and the official installation of the courts in those two jurisdictions. In addition, the Court for the Suppression of Economic and Terrorism Crimes (CRIET), which was installed in August 2018, is now operational. Its objective is to curb terrorism-related and economic crimes, as provided for in the criminal legislation in force, as well as suppress drug trafficking and related crimes.

21. Within the context of strengthening the governance of public enterprises, in September 2019 we granted a delegated management contract to the Beninese Electricity Company (SBEE) in order to improve its management. In October 2019 we decided to place the *Société Nationale de Commercialisation des Produits Pétroliers* (the National Company for the Marketing of Petroleum Products, or SONACOP) under temporary management with the aim of resolving the difficulties related to its operations and financial losses. In order to reduce losses in the collection of electricity payments, this year we introduced a new electronic system for making electricity payments via MTN Mobile.

22. To combat corruption, efforts are underway thanks to the initiatives undertaken by the National Anti-Corruption Authority (ANLC) to implement the asset declaration regime laid out in the 2011 Anti-Corruption Law. In particular, the ANLC's measures are intended, among other things, to: (i) ensure that penalties are imposed by responsible courts if the assets of individuals covered by the law are not declared or in case of false or misleading declarations; and (ii) allow the online declaration of assets. In February 2019, Parliament passed the Law on Strengthening Public Governance. This law allows the state to hold any official responsible who through his acts and actions misleads the government with a negative impact on public finances. We will strengthen the enforcement of the rule of law, the judicial system, and the general anti-corruption framework in order to improve governance. In particular, we will strengthen the National Anti-Corruption Authority by improving its human, technical, and logistical capacities, and by enhancing its independence and financial autonomy with a sufficient budget allocation. In July 2019 a committee composed of staff from the Ministry of Justice and the National Unit for the Handling of Financial Information (CENTIF) prepared a draft decree on the creation of the Beninese agency for the management and recovery of seized and confiscated assets.

23. Finally, with regard to the observance of international governance standards, Benin ratified the United Nations Convention against Corruption in 2005, followed by the African Union Convention against Corruption and the Economic Community of West African States (ECOWAS) anti-corruption protocol. The ANLC is also in the process of preparing an action plan for implementing the recommendations made following the assessment of the National Integrity System (NIS) carried out by Transparency International in 2016 with the support of the European Union. In addition, in June 2018 Parliament adopted the new law on combating money laundering and the financing of terrorism, which will enable Benin to harmonize and strengthen its national regulations in conformity with the new measures under way in the WAEMU, in order to fight financial crimes. Lastly, the evaluation by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) is under way and will be finalized during the plenary session in December 2019. We are committed to continuing to strengthen our AML/CFT regime and to carrying out the recommendations from the GIABA evaluation, including those concerning politically exposed persons.

G. Business Environment

24. Improving the business environment is necessary in order to support the development of the private sector and to achieve stronger and more inclusive growth in Benin. To make Benin an

attractive destination for investors, a new investment promotion mechanism was put in place in 2017, which streamlined the institutional and regulatory framework for investment promotion in Benin. At the strategic level, an Interministerial Investment Promotion Committee was created to improve government coordination on issues related to the business environment and to provide a coordinated response to the needs and expectations expressed by investors. At the operational level, the Agency for the Promotion of Investment and Exports (APIEX) has been restructured to become the sole gateway for investors and a showcase for the promotion of investments and exports in Benin. The APIEX is thus: (i) the one-stop window for business creation, making it possible to shorten the business creation time to three hours; (ii) the technical body responsible for reviewing applications for approval under the Investment Code; (iii) the Executive Secretariat of the Public-Private Partnership (PPP) Support Unit; (iv) the focal point for the implementation of the Doing Business reforms; (v) the administrative authority for the special economic zones; and (vi) the export information and facilitation center.

25. In the context of business creation, the two key measures that have been undertaken in 2019 are the simplification of the procedures for declaring the existence of a business and the elimination of the procedure for the physical verification that the business name is unique. The tax payment process has been improved by the establishment of an electronic payment procedure (which is also available to large and medium-sized enterprises), the strengthening of the provisions regarding the single business tax, and a reduction in the tax from CFAF 400,000 to CFAF 150,000 in 2019. We also introduced an income tax credit for businesses that use certified electronic cash registers.

26. In addition, in 2018 Parliament adopted a law on hiring that aims to promote job creation. This law has corrected a number of legal loopholes, particularly those relating to hiring for trial periods, which has long been unregulated, and the types of contracts, including fixed-term contracts, that can be renewed indefinitely. Moreover, the new law allows foreigners to work under open-ended contracts, whereas previously they had access only to fixed-term contracts. The law also eases the licensing conditions and sets a maximum limit of 9 months of compensation in the event of dismissal deemed abusive by the courts.

27. The reforms pertaining to cross-border trade involve an interconnection between the Nigerian and Beninese customs services, the introduction of an online system for making complaints, the creation of an informational website for users regarding customs clearance conditions, and the establishment of a working group responsible for defining customs clearance standards and streamlining customs procedures. With regard to the protection of minority investors, the time period for the handling of cases dropped from 750 days in 2017 to 57 days in 2018. We will facilitate access to commercial case law by making information concerning business law and judicial decisions available online.

28. In the area of protecting property titles, we made amendments and additions to the land code in 2017; this led to the adoption of Law 2017-15 of August 10, 2017. This new law provides for a reduction in the time required to obtain property titles and, in the case of foreign investors,

the lifting of restrictions on the acquisition of real property. The National State Land and Land Tenure Agency (ANDF) has carried out a number of actions related to placing the Cotonou land-use registry online, the creation of separate online folders for notaries (which enable them to track progress in the handling of their applications), and the establishment of deadlines for the issuing of property transfer deeds by the ANDF. As part of the reforms of construction permits, a memorandum, intended for the Association of Architects, was issued to clarify the costs of providing certificates of membership. Likewise, Order 2017-131 of December 18, 2017, provides for a clarification of the minimum requirements that need to be met in order for construction permits to be issued. In addition, the Minister of Economy and Finance issued an order in June 2019 (1908) on the creation of a commission for the handling of complaints regarding the transfer of ownership. The establishment of this commission will allow for an improvement in Benin's Doing Business ranking, among other things.

H. Financial Sector

29. The main components of the capital regulations according to Basel II/III became effective in January 2018, including the definition of tier 1 capital, tier 2 capital, and the capital conservation buffer. The Basel II/III provisions that were recently introduced are being implemented gradually, starting on January 1, 2018. The new prudential framework takes an incremental approach in order to absorb the new requirements with regard to the minimum capital, leverage, concentration requirements, etc. The framework specifies that the capital adequacy ratio in 2019 should not be below 8.625 percent. These standards are considered essential to safeguarding a sufficient buffer of high-quality capital, as well as strengthening banks' balance sheets. A new banking chart of accounts and an accounting framework for loan loss provisioning in keeping with IFRS 9 were also introduced in January 2018. The standards on liquidity ratios aligned with the Basel II/III principles are being prepared at the regional level.

30. Two small public banks have reported repeated losses in recent years. The government has put into place a restructuring plan for these two banks. We are currently hoping to perform a merger of these two institutions with the aim of reaching a critical size in order to comply with the minimum capital requirement established in the WAEMU. The merger will also make it possible to take advantage of synergies, in particular by making use of the nationwide network of one of the banks. We have hired an international auditing firm to evaluate the various options and their cost to the public purse. We are in the process of selecting, in consultation with the IMF team, a type of merger that will enable the new bank to comply with prudential standards for capital and to regain its financial viability. We will ensure that the merger option that is chosen will be the least expensive in terms of public resources and that the merger will be in line with international best practices with regard to governance, financial reporting, risk management, control, operations, and strategy. We are then planning put into place a restructuring plan for the merged bank, which will be presented to the Banking Commission after it has been finalized.

31. To modernize the financial sector, we have also, by Law 2018-38 of September 2018, reactivated the *Caisse de Dépôts et Consignations* (Deposit and Consignment Fund, or CDC),

which was created on August 31, 1973, by Order 073-60. A Steering Committee for the Operationalization of the CDC was established in January 2019 pursuant to an order issued by the Minister of Economy and Finance and a recruitment notice for its senior members was issued. In addition, we have signed a contract with an international consulting firm for the purpose of: identifying the resources of the CDC; drafting a business plan; defining an investment approach and risk management policy; and putting into place a governance framework and human resources management, as well as an information system. The gradual rollout of the CDC's activities is planned for 2020.

32. The essential mission of the CDC is to receive, and conserve movable assets deposited with it and to return them to their rightful owners. It is thus responsible for administering deposits and consignments, providing services related to the cash and funds whose management is entrusted to it, and receiving administrative and court-ordered consignments and sureties. In general, the CDC has general interest missions in supporting the public policies of the central and local governments, particularly in the areas of economic and social development. To achieve them, the CDC pursues investment and risk management policies and strategies that should enable it to create jobs and generate yields above the average cost of government borrowing. To this end it is adopting prudential rules in line with best practices for investment and risk management.

33. At the practical level, in the context of modernizing the financial sector of Benin, the CDC will enable us to: (i) hold equity in companies that we wish to support or from which we wish to receive dividends, like any shareholder; (ii) work alongside the banking system by making deposits in banks at reduced costs; (iii) participate in the financing of social projects; and (iv) assist effectively in the financing of the economy by making public securities more attractive (proposed purchase of public securities at low rates by the CDC).

34. To strengthen the land reform and formalize the collateral used in lending activities, we created the National State Land and Land Tenure Agency in 2016, which, among other things, handles the conversion of occupancy permits into real estate titles. The initiative included in the 2016 Supplementary Budget Law to eliminate recording fees was successful, and the number of real estate titles recorded has grown. We will also work to advance the electronic recording of real estate titles – which has already been completed for the city of Cotonou – by extending the process to the entire country. In May 2019 we adopted a decree to facilitate the conversion of occupancy permits into real estate titles – which are recognized as collateral by the banking regulator. This should result in a steep decline in the level of banks' provisions and an improvement in their financial condition. We also established a Trade and Personal Property Credit Register (RCCM) and are planning to provide electronic access to the register. In addition, the implementation of these measures will enable banks to reduce the level of provisions and ultimately increase their capacity to lend to the private sector.

35. Spurred by the BCEAO, a support mechanism has been put into place for the financing of small and medium-sized enterprises/small and medium-sized industries (PME/PMI), or a PME

mechanism in the WAEMU. The establishment of such a mechanism was necessary owing to the important role played by SMEs in the economic fabric of the countries in the Union. According to the governments, these businesses account for between 80 percent and 95 percent of the enterprises surveyed, while most of the studies indicate that it is difficult for these businesses to gain access to financing, and to medium- and long-term credits in particular. The mechanism is focused on four main areas, including: (i) the promotion of SMEs; (ii) improvement of the management of these enterprises; (iii) the refinancing of bank loans to SMEs; and (iv) the diversification of financial instruments adapted for their financing. In this regard, it is expected that various actors will be involved in the implementation of a number of actions. For the governments, these include the adoption of measures aimed at providing incentives and simplified procedures to encourage the emergence of SMEs (setting aside a proportion of public procurement for SMEs, the development of subcontracting, etc.). The purpose of the support and oversight structures with regard to SMEs is to provide upstream assistance in meeting the eligibility conditions and to perform ex-post monitoring after financing has been obtained. They should then work downstream to ensure the proper use of bank credits, the smooth implementation of business plans, and compliance with deadlines, which will allow for a reduction in the risk of default on payment. As for the lending institutions, they will finance the SMEs, either directly or in collaboration with the support and oversight structures of these enterprises. For its part, the BCEAO will take action with regard to the terms of financing offered to SMEs, by making bank credits to these enterprises more attractive through appropriate refinancing (at a rate of 2.5 percent). In Benin, the official ceremony launching the mechanism took place in August 2018. Its operationalization is under way.

36. We believe that the microfinance sector is key to promoting access by small enterprises to the financial system. To preserve its viability and credibility, we have adopted a ministerial decision for microfinance institutions aimed at strengthening their supervision and the granting of authorizations. Progress has been made in closing unauthorized microfinance institutions (MFIs). In addition, the regional financial inclusion strategy is being implemented. Steps have also been taken to rehabilitate the microfinance sector, particularly by improving the quality of financial and accounting information through the implementation in 2016 of the centralized IT solution for monitoring decentralized financial systems (SICS-SFD). In operational terms and with regard to supervision of the sector, in the course of 2018, the National Decentralized Financial Systems Surveillance Agency (ANSSFD) continued implementing the microfinance sector rehabilitation strategy document, which is based on the following three pillars: (i) application of the law to all authorized decentralized financial systems; (ii) application of the law to all entities operating illegally; and (iii) continued strengthening of the stability and balanced operation of the decentralized finance sector with a view to ensuring its long-term sustainability. Between 2013 and 2019, a total of 240 unauthorized MFIs received formal authorization, while 17 unviable MFIs were closed.

37. To promote the sector, the National Microfinance Fund (FNM) has prepared a new strategic plan for 2017-2021, founded on the following three strategic pillars: (i) facilitating

access to appropriate financial resources for microfinance institutions; (ii) building operational capacity and promoting social and technological interventions; and (iii) strengthening governance and the sustainability of FNM actions. In addition, the government, through the Ministry for Social Affairs and Microfinance (MASM), has begun preparing the FinScope survey, the first stage in the Making Access to Financial Service Possible (MAP) process, which is to culminate in the development of a national financial inclusion strategy in line with the regional financial inclusion strategy developed by the BCEAO. Finally, financial inclusion will be strengthened with the implementation in 2019 of the microfinance component of the Insurance to Build Human Capital (ARCH) project.

PROGRAM FOR 2020

38. The objective of the three-year program (2017-2020) signed by the IMF and the government of Benin is to lay the foundation for accelerated and inclusive growth while preserving macroeconomic stability and public debt sustainability. Implementation of the reforms is expected to: (i) create more fiscal space through the mobilization of additional domestic resources; (ii) enhance the efficiency of public expenditure, particularly investments; and (iii) improve governance and the business environment with a view to stimulating private sector activity.

39. Our macroeconomic framework envisages growth of 6.7 percent in 2020, supported essentially by the strong performance of the agricultural sector in general, and cotton production in particular, construction and port traffic activities. Inflation should remain moderate and well below the WAEMU target of 3.0 percent. In 2020 we are expecting an improvement in the current account deficit, projected at 4.7 percent of GDP. This improvement will be driven primarily by a significant increase in exports, due above all to higher cotton exports and lower growth in imports resulting from the scaling down of food imports.

A. 2020 Budget and Expenditure and Revenue Program

40. In December 2019, the National Assembly will pass the 2020 Budget Law in accordance with the draft submitted by the government and the program objectives. The fiscal deficit, on a commitment basis (grants included), is expected to reach 1.8 percent of GDP in 2020 compared to 2.3 percent in 2019 (2.0 percent when unpaid debt to suppliers identified during a recent audit is excluded). Consequently, the fiscal adjustment between 2019 and 2020 is estimated at 0.25 percent of GDP. Total government revenue (including grants) is expected to amount to 14.5 percent of GDP, while total expenditure would be contained at 16.3 percent of GDP.

41. The 2020 Budget Law is based on fiscal measures estimated at CFAF 45 billion. The key fiscal measures include: (i) raising the minimum flat tax of CFAF 50,000 applied to the corporate tax; (ii) elimination of the registration fee exemption for real estate transfers; and (iii) widespread rollout of electronic cash registers. All these tax policy measures, coupled with the

pursuit of revenue agency reforms, are expected to result in the mobilization of CFAF 1,220.0 billion in government revenue in 2020. We will continue the mobilization of tax revenue with the aim of creating additional fiscal space to finance public investment and priority social spending.

42. Should the revenue generated by the tax reforms fall short of the budget forecasts, as a first step the government will slow down the execution of public investment. If, however, there is a significant shortfall in revenues collected – due to a prolonged closure of the border with Nigeria in 2020, for example – we will study, in consultation with the IMF, the possibility of increasing the fiscal deficit target in order to protect social spending and priority investments.

43. In the area of public expenditure, the reforms initiated with the aim of ensuring its rationalization will be continued in 2020. As for the management of the wage bill, the reforms include: (i) use of the banking system for the payment of salaries and bonuses to military personnel; (ii) the recall of all financial attachés from Benin’s diplomatic missions abroad; and (iii) cutting back on the number of diplomatic missions (closing/merging of posts, etc.).

44. In addition, a pilot phase of the insurance component of the government’s social protection project – Insurance to Build Human Capital (ARCH) – began in 2019, targeting extremely poor populations (300,000 people) and expanding to the general population between 2020 and 2022. The government will cover the entire insurance premium for those in extreme poverty and will provide a partial subsidy (up to 40 percent) for the premium paid by populations categorized as impoverished but not in extreme poverty. In 2020 the health insurance component will be expanded to include all people in extreme poverty and the National Social Protection Agency (ANPS) will be equipped and its information system will be rolled out. The budget cost of the ARCH program is estimated at 0.3 percent of GDP. The insurance system is based on an innovative mechanism for targeting poor populations and the establishment of a single social register in cooperation with the World Bank. The other components of the ARCH program are improvement of skills, access to credit, and underwriting of a retirement pensions for around 1.8 million people who are working primarily in the informal sector.

45. Several measures are under way in the implementation of the Treasury Single Account (TSA). They include: (i) the adoption of a regulatory framework for the TSA in 2015; (ii) the interconnection and modernization of the unit responsible for the management of correspondent accounts; and (iii) a partial inventory of public accounts in the books of commercial banks in 2017 and an update in 2018. Nevertheless, we are encountering technical and operational difficulties related to the interface of the Treasury’s computer system with the BCEAO system. In addition, we need to be sure that the effective implementation of the TSA will not have an impact on the banking system. To this end, **we will conduct a study to evaluate the impact of the withdrawal of public funds from commercial banks and their placement in the TSA on the stability of the banking system (before end-March 2020)**. An AFRITAC West mission will visit Cotonou in December for the purpose of supporting us in the operational implementation of the TSA, and in particular in analyzing the impact of the movement of bank accounts to the TSA.

B. Public Debt Management

46. The Autonomous Amortization Fund is in the process of revising Benin's medium-term debt strategy, which will be published before end-2019. It includes a new target for the composition of public debt that reflects recent debt operations (reprofiling and issuance of a Eurobond). The previous medium-term debt strategy, which covered the period 2017-2021, aimed at reaching a balance between the amount of domestic debt and external debt. External debt has now reached 60 percent of total debt, however, so there needs to be a strategy with a new optimal target for the composition of public debt. The new medium-term debt strategy (2020-2024) therefore targets a relatively stable level of external debt that will account for between 55 and 60 percent of total debt during the period 2020-2023 and between 50 and 55 percent in 2024.

47. The document is updated each year to better take into account the financing specificities of the current budget. Thus, an annual debt strategy for 2020 has been prepared and attached to the draft 2020 budget law. It shows how the government plans to choose between issues in the domestic market and those in the international market. In addition to the cost of financing, the structure of the portfolio takes into account the exposure to different kinds of risks, including exchange risk during this process.

48. In order to strengthen the monitoring of securities issued and developments in the international market, the CAA plans to acquire a Bloomberg terminal with a view to improving financial information. In addition, an investor communications and relations department will be created in early 2020 to analyze the markets. The market analysis unit will be responsible for the use of the Bloomberg terminal. It should be stressed that Benin is constantly working to improve its public debt management system. These various reforms and improvements earned Benin's Ministry of Finance the Global Markets award for the top public debt management office in sub-Saharan Africa in 2019.

C. Infrastructure Projects and Public-Private Partnerships

49. Following the establishment of the legal and regulatory framework for public-private partnerships (PPP) by Law 2016-24 of June 28, 2017, the government adopted implementing decrees to take account of the new institutional framework for the promotion of investment in Benin. The institutional framework has entered into effect, thanks in particular to technical assistance from the World Bank. Analysis of the options for financing GAP projects has led to the compilation of a catalog of PPP projects. In accordance with international best practices, we will ensure that: (i) investments in PPPs are included in the budget documents and public finance statistics; and (ii) liabilities relating to PPPs are assessed and annexed to the budget law. We will analyze the fiscal risks relating to these PPP projects. Finally, in 2018 we established a unit within the Ministry of Economy and Finance for the management of fiscal risks related to PPPs. We are now working on capacity building in order to make the unit fully operational.

50. The government has entered into preliminary discussions with the People’s Republic of China on a future partnership to finance the construction of the Glodjigbé International Airport. At this stage, the financing packages and schedules of works have not yet been finalized. We are continuing with all of the preliminary analyses for the financing of the projects, and we will discuss them with the IMF teams when they have been finalized. We remain determined to take adequate measures to ensure that the financing of this project is reflected in the public accounts in accordance with international best practices, that the risks on public finances are minimized, and that public debt sustainability is not jeopardized.

51. In January 2019, Niger and Benin signed a bilateral agreement for the construction of an oil pipeline to transport crude oil from southeast Niger to the Port of Cotonou, covering a distance of 1,980 km. It will require a transit connection of around 1,980 km, 675 km of which will cross Benin. The construction of the pipeline is expected to take 24 months and the preliminary excavation work is expected to begin in January 2020 and last until end-2021. The pipeline is expected to go online in January 2022, with a projected service life of 22 years (2022-2043). The total cost of the project for the Beninese portion is estimated at US\$1.05 billion (CFAF 608 billion) and it will be financed entirely by the West African Oil Pipeline (Benin) Company S.A. (WAPCO BENIN, a private company). WAPCO BENIN is expected to take out a bank loan to finance 80 percent of the total project cost, while the remaining 20 percent of the project cost will be financed using the company’s own funds. No financing will be provided by the Beninese government. We are planning to benefit from this project through: (i) transit fees, which are expected to total US\$884.6 million (CFAF 680 billion) over the entire period of its operation; and (ii) tax revenues (VAT and other fees and taxes) in the amount of US\$109 million (CFAF 535.2 billion).

D. Business Environment

52. Benin improved its ranking in the 2020 Doing Business report, reaching 149th out of 190 countries in terms of ease of doing business, compared to 153rd place (51.42 points) in the previous report, which means that it moved up four places. We are committed to continuing to strengthen the business environment to favor private companies. To this end, since 2018 we have elaborated an action plan to improve the business environment, which defines actions in the short-term, medium-term, and long-term.

53. The major reforms in 2020 concern the following:

- Official registration of the creation of a business entirely online;
- Integration of major public utilities into the information and credit platform;
- Adoption of a decree on minimizing the use of paper documentation;
- Minimizing the use of paper documents in the building permit process;

- A draft decree on the regulation of building permits and demolition permits;
- A draft decree on organization of the profession of engineer and consulting engineer and establishing a national order of civil engineers in Benin.

54. Under the new arrangement, a specific institutional framework for implementing the Doing Business reforms has been adopted, along with a matrix of annual actions to be implemented. Two draft laws designed to facilitate private investment have been finalized and submitted to Parliament for adoption. One draft law contains amendments to the investment code and the other focuses on the promotion and development of micro-, small- and medium-sized enterprises in Benin. The innovations introduced in the new Investment Code include:

- simplification of the approval mechanisms (three mechanisms with clear and precise incentives during the startup and operating periods, two alternative mechanisms to further encourage investors interested in the priority sectors of the national economy);
- professionalization of the processing of accreditation files, and time limit on the technical decision;
- improvement of the investment monitoring system;
- incorporation of international best practices for the preparation of investment codes and, in particular, the comments provided by the United Nations Conference on Trade and Development (UNCTAD) on the existing code;
- structuring of incentives in such a way as to make Benin more competitive and ensure the consistency of its investment code provisions with the series of exemptions granted investors in the special economic zones, as well as with the specific government assistance initiatives designed to promote national entrepreneurship;
- the establishment of a system for the promotion of private investment and the protection of investors' rights at the national, regional, and international levels.

55. The reforms undertaken in the area of facilitating international trade aim at: (i) the establishment of a more rapid and less burdensome computerized process for the customs clearance of imports and exports; (ii) the integration of customs and control services at the Port of Cotonou (PAC); (iii) delegation of the management of the PAC to the Port of Antwerp; and (iv) implementation of the one-stop foreign trade window (GUCE).

E. Financial System

56. We also intend to continue building the capacity of the judges and courts to rule on financial matters. The new commercial tribunal in Cotonou is now operational. These courts will help to resolve business disputes. As in previous years, the BCEAO has, in the context of its

training program for the judicial profession, undertaken to help build the capacity of judges and magistrates in matters relating to the WAEMU financial regulations.

57. To promote financial inclusion in Benin, the government plans to take measures such as the creation of permanent mechanisms for the mobilization of resources by microfinance institutions and improved promotion and coordination of the microfinance sector.

F. Quantitative Performance Criteria and Structural Benchmarks

58. The structural benchmarks for 2019 and 2020, as well as their macroeconomic justifications, are described in the table. The sixth program review is expected to be completed on or after March 23, 2020.

Table 1. Benin: Status of Quantitative Performance Criteria and Indicative Targets, 2019¹
(Billions of CFA francs)

	March 31, 2019			June 30, 2019			September 30, 2019			December 31, 2019		
	Indicative Targets			Performance Criteria			Indicative Targets			Performance Criteria		
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status
A. Quantitative performance criteria²												
Net domestic financing of the government (ceiling) ³	15.0	27.6	Not Met	-38.0	-50.4	Met	-158.5	-68.0	Not Met	-289.0		
Basic primary balance (excluding grants) (floor)	15.6	-0.3	Not Met	44.5	50.7	Met	47.7	15.9	Not Met	101.7		
Total revenue (floor)	235.1	250.2	Met	505.5	522.8	Met	762.5	779.6	Met	1112.4		
B. Continuous quantitative performance criteria (ceilings)												
Accumulation of external payments arrears	0.0		Met	0.0	0.0	Met	0.0	0.0	Met	0.0		
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	458.0	Met	797.0	458.0	Met	797.0	797.0	Met	797.0		
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		
C. Memorandum Items²												
Priority social expenditure (floor)	37.2	38.2	Met	82.5	84.3	Met	140.7	137.1	Not Met	180.0		
Budgetary assistance	0.0	3.9		3.9	3.9		10.1	3.9		45.4		

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. To account for the temporary closure of the border with Nigeria, the end-December 2019 QPC will be adjusted, subject to limits specified in the TMU (with a reduction in the floor on revenue and basic primary balance, and an equivalent increase in the domestic financing ceiling).

³ 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-rata, subject to limits specified in the TMU. 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.

Table 2. Benin: Structural Benchmarks for 2018-20

Measures	Dates	Rationale	Status
Submit a 2019 budget that is consistent with the ECF-supported program to the parliamentary commission for consideration.	Prior action for Third Review	Preserve fiscal sustainability.	Met
Government should submit a 2020 budget consistent with the ECF-supported program to the parliamentary commission.	Prior action for Fifth Review	Preserve fiscal sustainability.	Met
Revenue mobilization			
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	Met
Implement a plan to strengthen tax compliance.	June 2018	Boost tax revenues by improving tax compliance-risk management.	Met
The 2019 adopted budget eliminates tax expenditures equivalent to CFAF 60 billion.	December 2018	Boost tax revenues.	Met
The Ministry of Finance implements the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones (MEFP ¶10).	November 2019	Rationalize exemptions and fight tax fraud.	
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection (MEFP ¶12).	December 2019	Improve customs revenues and fight customs fraud.	

Table 2. Benin: Structural Benchmarks for 2018-20 (continued)

Measures	Dates	Rationale	Status
Adopt a 2020 budget that includes a tax package with revenue-raising measures equivalent to CFAF 45 billion (MEFP 141).	December 2019	Foster revenue mobilization.	
Public financial management			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State.	June 2018	Improve economic governance.	Met
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Improve budget information.	Met
Adopt a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify governance weaknesses.	Not met (implemented in November 2018)
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018. ¹	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account (MEFP 145).	March 2020	Reduce fiscal and financial risks.	

¹The unpaid services to suppliers were inherited from the previous governments.

Table 2. Benin: Structural Benchmarks for 2018-20 (concluded)

Measures	Dates	Rationale	Status
Financial Inclusion			
The Ministry of Finance should establish a credit bureau.	December 2018	Improve crisis management.	Met
The Ministry of Finance should adopt a decision to strengthen the implementation of the regulatory framework for the licensing and supervision of microfinance institutions.	December 2018	Promote financial inclusion.	Met
State-owned enterprises reform			
Complete the data collection of SOEs' debt and operationalize the monitoring framework.	September 2018	Better monitor contingent liabilities and improve public debt management.	Met
Set performance contracts with key SOEs.	December 2018	Improve SOEs' contribution to government revenues.	Met
Trade			
Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement.	September 2019	Facilitate trade.	Met

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (the “Memorandum”) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Benin’s program supported by the Extended Credit Facility (ECF). It also specifies 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 will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.²

CFAF/US\$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

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 (Tableau des opérations financières de l’État, TOFE).

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

- a. **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for 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. Debt can take a number of forms; the primary ones being as follows:

² Exchange rates as of August, 19, 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 seller in the future (such as repurchase agreements and official swap arrangements);
- ii. suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;
- iii. leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property; and
- iv. Treasury bills and bonds issued in Communauté Financière Africaine (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public debt for the purpose of this Memorandum.

Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are also 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 using a single discount rate set at 5 percent.
- c. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six month USD LIBOR is -200 basis points.² Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and (d) Domestic debt is defined as debt denominated in CFA francs.
- d. "External debt" is defined as debt denominated in any currency other than the CFA franc

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

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 shares 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 Special Drawing Rights (SDR) allocation.
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 local commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of government-owned entities, except for 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 local commercial banks, including Treasury bills and other securitized debt.
7. The data 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 (MDRI) 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 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 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 74.7 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103,0 billion at end-September 2018; and CFAF 118.8 billion at end December

2018. These ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF -38.0 billion at end-June 2019; CFAF -158.5 billion at end-September 2019; and CFAF – 289.0 billion at end-December 2019. These ceilings are performance criteria for end-June and end-December 2019, and an indicative target for end-September 2019.

Adjustments

11. 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 more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that 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 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

12. 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 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.
- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 3.9 billion at end-June 2019; CFAF 10.1 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

13. The ceiling on the net domestic financing will be increased by an amount equivalent to the shortfall in customs revenue compared to the program's projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

B. Floor of the Basic Primary Fiscal Balance

Definition

14. The basic primary fiscal balance is defined as the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a commitment basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments 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

15. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -69.7 billion at end-March 2018; CFAF -47.5 billion at end-June 2018; CFAF -20.3 billion at end-September 2018; and CFAF +3.9 billion at end-December 2018. The floors for end-June 2018 and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

16. Similarly, the floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.7 billion at end-September 2019; and CFAF 101.7 billion at end-December 2019. The floors for end-June 2019 and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

Adjustments

17. The floor of the primary budget balance will be adjusted downwards by an amount equivalent to the customs revenue deficit compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

C. Floor of Total Government Revenue

Definition

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

Performance Criteria and Indicative Targets

19. 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 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 701.1 billion at end-September 2018; and CFAF 1021.6 billion at end-

December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

20. 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 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2019; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-December 2019. The floors for end-June and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

Adjustments

21. The government revenue floor will be adjusted downward by an amount equivalent to the shortfall in customs revenue compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

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

Definition

22. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer repayment period. The Autonomous Amortization Fund (CAA) and the Treasury record and update the data on the accumulation and reduction of domestic payments arrears. The definitions of debt given in paragraph 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

23. 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

24. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, on the external debt of the government or external debt guaranteed by the government. The definitions of debt given in paragraph 4a, of external debt in paragraph 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

25. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears related 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. Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More**Definition**

26. 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 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

27. The term “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 3, 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.

Continuous Performance Criterion

28. The present value of new external borrowing contracted or guaranteed by the government in 2019 will not exceed a cumulative amount of CFAF 797 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

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

29. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) 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, which are automatically paid from the Treasury’s account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

30. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS**H. Floor for Priority Social Expenditures**

31. Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, inter alia: 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

32. 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 1. Priority Social Expenditure Categories

Budget code	Description
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
39	Ministry of Agriculture Livestock, and Fisheries
46	Ministry of SMEs and the Promotion of Employment
26	Ministry of Justice
52	Ministry of Labor and Public Affairs
41	Ministry of Social Affairs and Microfinance
44	Ministry of Higher Education and Scientific Research
27	Ministry of Plan and Development
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
60	Ministry of Domestic and Public Security
51	Ministry of Infrastructure and Transport
34	Ministry of Living Standards and Sustainable Development
40	Ministry of Tourism, Culture and Sport

Indicative Target

33. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

34. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

INFORMATION FOR PROGRAM MONITORING**I. Data on Performance Criteria and Indicative Targets**

35. To facilitate effective program monitoring, the authorities 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 claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by 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;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

- Data pertaining to the amount of exceptional payment orders 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.

J. Other Information

36. The authorities will provide IMF staff with the following data:

Every month:

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

Every quarter:

- Data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and
- Data on the stock of external debt, external debt service, the signing of external loan agreements 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 review law; as well as any decree or law pertaining to the budget or the implementation.