

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

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

- the staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of a Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on March 7, 2007, with the officials of Benin on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 23, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press Release summarizing the views of the Executive Board as expressed during its June 11, 2007 discussion of the staff report that completed the review.
- a statement by the Executive Director for Benin.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Benin\*  
Memorandum of Economic and Financial Policies by the authorities of Benin\*  
Technical Memorandum of Understanding\*  
\*Also be included in Staff Report

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

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BENIN

**Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of a Performance Criterion**

Prepared by the African Department

(In consultation with other departments)

Approved by Robert J. Corker and Anthony R. Boote

May 23, 2007

**EXECUTIVE SUMMARY**

- **Background.** A three-year PRGF arrangement (10 percent of quota) was approved on August 5, 2005. Discussions for the second review were held in Cotonou during February 21–March 7, 2007; on completion of the review, a disbursement of SDR 0.88 million will become available. The mission consisted of Mr. Matungulu (head) and Messrs. Youm, Samake, and Miyajima (all AFR), and Yao, the Resident Representative. It liaised with the World Bank country manager for Benin. Mr. Alle, Senior Advisor to Executive Director Rutayisire, participated in some of the discussions.
- **In a hotly contested legislative election last March, President Yayi’s allies won a narrow majority in Parliament.** This strengthens the government’s mandate to implement its reform-based legislative agenda.
- **Overall program performance is on balance satisfactory, although structural reform implementation remains patchy.** Macroeconomic performance remains broadly favorable, but one structural performance criterion related to port reform and one structural benchmark were missed. To address weaknesses in port reform, the authorities have handed over management of reform to the US-funded Millennium Challenge Account unit for Benin (MCA-Benin).
- **In the attached letter of intent and memorandum of economic and financial policies,** the authorities set out policies for 2007 and request a waiver for non observance of a structural performance criterion and completion of the second review. Growth is expected to strengthen further, and fiscal policy aims for (narrowly-defined) primary budget balance.
- **Key policy issues:** The program’s focus is on raising the revenue ratio and ensuring adequate expenditure management and control to help provide fiscal space for increased pro-poor and pro-growth spending; and on securing implementation of long-stalled state disengagement from commercial activities in the cotton, telecommunications and energy sectors. Reducing state engagement in these sectors is proving a long, drawn out, process.

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## I. INTRODUCTION

1. **Reversing a declining trend in the last three years, real GDP growth picked up in 2006**, although the economy remains vulnerable to exogenous shocks. Under the current PRGF arrangement, the authorities are undertaking policies to accelerate the pace of economic activity and enhance the effectiveness of the poverty reduction strategy. Program performance has so far been mixed. While macroeconomic developments and prospects have improved, especially in the fiscal area, implementation of structural reforms has been patchy.
2. **In March's parliamentary elections, President Yayi's allies won over 50 percent of the seats in the national assembly**, giving the new cabinet, for the first since it was sworn into office last year, strong parliamentary support for reforms. Securing implementation of Benin's long-stalled reform of the cotton, telecommunications and electricity sectors remains a key objective.

## II. PROGRAM PERFORMANCE IN 2006

3. **All quantitative performance criteria (PC) and benchmarks for the period through end-December 2006 were observed while one structural performance criterion and one structural benchmark were missed** (Tables 1 and 2, MEFP). The missed structural PC and benchmark concern the introduction of consolidated electronic billing at the port of Cotonou and the preparation of a report on government debt to civil servants, respectively. To address delays in the port sector, the government has handed over management of reform to MCA-Benin. The authorities have also finalized and communicated to Fund staff the report on government debt to civil servants. As agreed under the program, the settlement schedule for this debt (CFAF 150 billion or 6 percent of 2006 GDP) is consistent with preservation of medium-term budget viability.<sup>1</sup>

## III. POLICY DISCUSSIONS AND KEY ISSUES FOR 2007

### A. The Macroeconomic Framework

4. **Macroeconomic performance was broadly satisfactory in 2006, but somewhat weaker than expected under the program** (Text Table 1 and Figure 1). Despite the

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<sup>1</sup> During 2007-08 annual wages and wage arrears payments are to average 5.4 percent of GDP and 0.4 percent of GDP, respectively.

government repaying long-standing debts to farmers, cotton output was lower-than-anticipated, due to fertilizer shortages and continued institutional weaknesses in the sector.<sup>2</sup>

**Text Table 1. Benin: Selected Macroeconomic Indicators, 2004-06**  
(Annual change; unless otherwise indicated)

	2004	2005 Est.	2006	
			EBS 06/146	Est.
Real GDP	3.1	2.9	4.5	4.1
Inflation (end-year)	2.6	3.7	2.4	5.3
Narrow primary budget balance 1/ & 2/	0.0	-1.4	-0.9	0.4
Overall fiscal balance 1/ & 2/	-4.5	-3.6	-5.2	-2.2
External current account balance 1/	-7.9	-7.1	-7.0	-7.1
Bank credit to the private sector	4.5	20.2	11.4	9.0
Memorandum items:				
Production of cotton ( 1000 of tons) 3/	427.7	190.8	350.0	285.0
Real effective exchange rate (minus = depreciation)	2.4	2.2	...	0.2
Terms of trade	21.2	-15.9	4.1	-3.1
Foreign exchange reserves (months of imports)	8.7	11.3	11.4	14.7

Sources: Benin authorities; and Fund staff estimates.

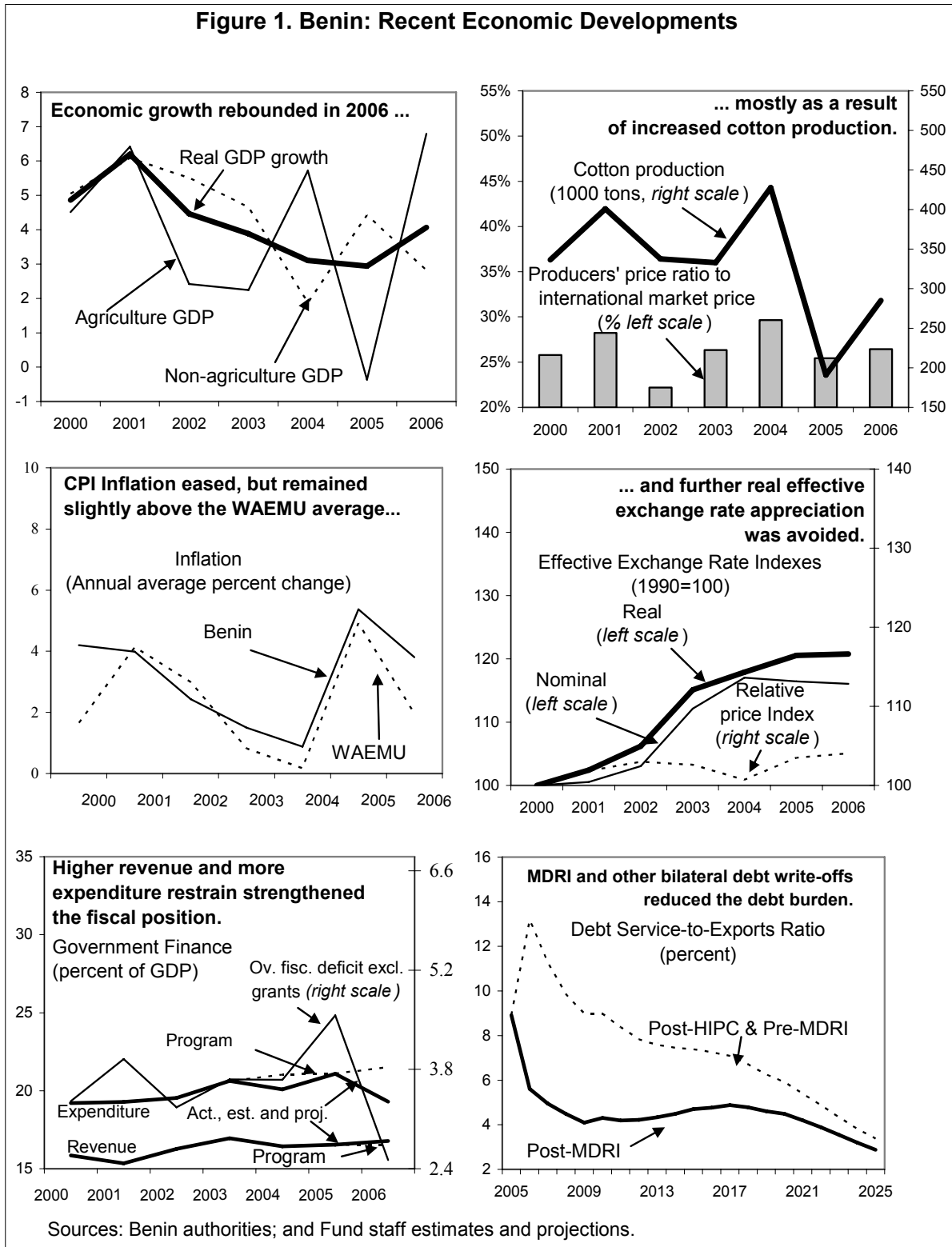
1/ Percent of GDP excluding grants.

2/ Payment order basis.

3/ For 2004-05, 2005-06, and 2006-07 seasons, respectively.

However, food and other non-cotton agricultural production were strong. As a result, real GDP growth is estimated to have been only moderately below program projections notwithstanding frequent drought-related electricity shortages. Inflation exceeded the average in the WAEMU, exacerbated by shortages in parallel market oil imports from Nigeria where there were repeated pipeline fires. However, further real effective exchange rate appreciation was avoided; although the CFA franc (which is pegged to the Euro) continued appreciating vis-à-vis the dollar, inflation in some key trading partners, especially Nigeria, outpaced price increases in Benin. With cotton exports declining as a result of low production in 2005, and the growth of oil and capital goods imports remaining subdued, the external current account deficit (excluding grants) stabilized around 7 percent of GDP.

<sup>2</sup> The authorities cancelled a fertilizer distribution contract that had been awarded through an open-bidding process, and newly chosen importers were unable to supply quality chemicals in adequate quantity. The bidding process for the 2007/08 season was completed early in January 2007, and fertilizer imports launched in March; the government has undertaken to avoid any disruption to the supply of fertilizers or other inputs (MEFP para. 10), and government disengagement from the state-owned cotton parastatal should help remove political interference.



5. **Economic growth appears set to continue in 2007.** Early importation of fertilizers in March should contribute to rising cotton production and healthy activity in related transport and other services. With public investment considerably strengthening, and the

global economic environment remaining generally favorable, real GDP growth is expected to rise to 4.5 percent. This is below the targeted 5.1 percent under the initial program, reflecting notably ongoing uncertainties regarding the supply of electric power in the region and energy costs. Medium-term growth has also been reduced somewhat to reflect delays in implementing structural reforms. In the absence of significant threats to food availability, inflation is projected to remain subdued around the 3 percent WAEMU target (Text Table 2 and Figure 2).

**Text Table 2. Benin: Selected Macroeconomic Indicators, 2007–09**  
(Annual change; unless otherwise indicated)

	2007		2008		2009
	First Review	Second Review	First Review	Second Review	Proj.
Real GDP	5.1	4.5	5.5	5.2	5.5
Inflation (end-year)	2.5	2.9	2.5	2.9	2.9
External current account balance 1/	-6.7	-6.3	-6.5	-5.9	-5.6
Narrow primary budget balance 1/	-0.5	0.0	0.0	0.6	1.0
Overall fiscal balance 1/ & 2/	-5.8	-6.1	-5.5	-4.7	-4.3
Memorandum items:					
Production of cotton ( 1000 of tons) 3/	463.6	420.0	538.8	476.0	527.3
Terms of trade	-11.1	0.8	-6.0	7.0	5.0
Broad money	12.3	5.2	4.3	8.4	8.4
Credit to the nongovernment sector	15.1	11.1	7.0	8.1	9.3

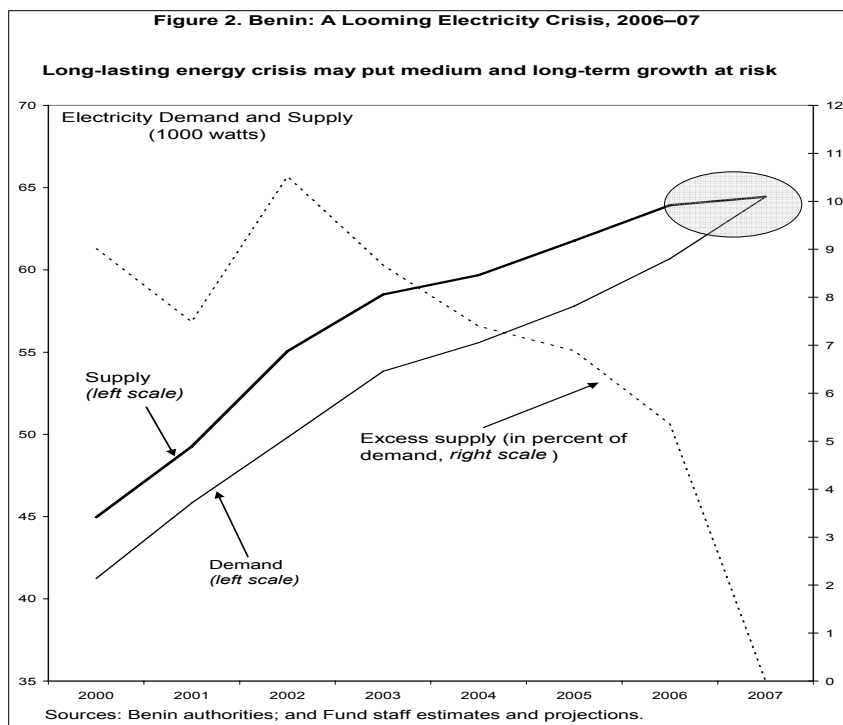
Sources: Benin authorities; and Fund staff estimates and projections.

1/ Percent of GDP excluding grants.

2/ Payment order basis.

3/ For 2007–08, 2008–09, and 2009–10 seasons, respectively.

**6. The macroeconomic outlook for 2007 assumes an appropriate policy response to downside risks.** The main risks relate to world cotton and oil price volatility, a difficult energy situation, and possible tensions in regional trade relations. To mitigate some of the risks, the authorities have negotiated electricity import deals with Nigeria and Ghana, pending privatization of SBEE; they are also taking steps to purchase electricity-generating turbines for the state-owned company. In the cotton sector, the authorities would reduce the producer price and





accommodate a government subsidy, revenue developments permitting, in case of a large drop in world cotton prices. More generally, the government intends to forge ahead with its growth-enhancing reform agenda, which the authorities deem critical to addressing core economic vulnerabilities and strengthening business confidence.

7. **The authorities initially expected real GDP growth to accelerate to over 6 percent in 2007**, counting on an exceptionally strong increase in cotton production. However, with the latter likely to be much lower-than-initially anticipated, and in view of persistent difficulties in securing a durable solution to electricity shortages, they concurred with staff's projection of a less robust overall economic expansion.<sup>3</sup>

## B. Fiscal Developments, Policy, and Prospects

### Fiscal performance in 2006

8. **In 2006, the new government strengthened revenue mobilization and tightened expenditure controls, substantially improving the fiscal position** (Box 1). Revenue increased by 0.3 percent of GDP, and domestically-financed outlays were contained below their 2005 level by 1½ percent of GDP. Consequently, net domestic financing of the budget was much lower than expected despite program aid falling short of expectations due to administrative delays in disbursements. Fiscal and debt sustainability was underpinned by debt relief under the MDRI.

### Fiscal policy and prospects for 2007

9. **The fiscal program for 2007 aims to increase pro-growth and poverty-reducing expenditures while preserving recent progress in medium-term budget consolidation.**<sup>4</sup> The program uses the fiscal space generated by MDRI relief and higher domestic revenue, and targets the elimination of the narrowly defined primary budget deficit, consistent with the PRGF arrangement. The 2007 budget is fully financed; budget support assurances have been received to cover an initial financing gap equivalent to 1.7 percent of GDP, from the European Union, IDA, and the African Development Fund<sup>5</sup>.

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<sup>3</sup> Preliminary estimates point to 2006/07 cotton output not exceeding 300,000 tons, which makes the government's initial projection of close to 500,000 tons for the 2007/08 season difficult to achieve.

<sup>4</sup> In 2007, priority sector outlays are projected to increase to the equivalent of 30.6 percent of total primary expenditures, from an annual average of 23 ½ percent during 2005-06.

<sup>5</sup> Averaging 1½ percent of GDP annually, projected financing gaps for 2008 and 2009 should easily be covered with assistance from development partners.

**Box 1. Benin : Revenue and Expenditure Developments in 2006**

Total revenue is estimated to have reached 16.8 percent of GDP, exceeding program projections by 0.3 percent of GDP, mainly driven by a relatively comfortable customs revenue outturn. Customs administration improved in response to large-scale personnel changes in key positions to address governance concerns, further streamlining of clearance procedures, a more judicious use of the ASYCUDA ++ computer system, and better valuation and tax assessment of imports. The domestic tax general directorate on the other hand continued to face difficulties in managing corporate and VAT tax arrears and tax credits at the large- and medium-size taxpayer units.

On the expenditure side, as an April 2006 ban on spending through ad hoc Treasury payments orders (*ordres de paiement Trésor*) went into effect, the pace of spending considerably slowed. Most affected were domestically-financed investment outlays, with an execution rate of 57 percent. Priority sector spending further declined to 22.7 percent of total primary spending, from 24.1 percent in 2005; and the wage bill was contained below target. As a result, at 18.9 percent of GDP, total spending was nearly 3 percentage points below the program target. No new domestic payments arrears were accumulated.

**10. In line with the above, total revenue and domestically-funded expenditure are projected to increase by ½ percent of GDP and ¾ percent of GDP, respectively.**

Envisaged revenue measures aim to achieve further improvement in customs and tax administration, including the rationalization of the activities of the large-tax-payer unit and the expansion of the fiscal agencies' computer capacity (MEFP, paragraphs 12 and 13). Spending, especially the wage bill, remains under close control. To ensure adequate implementation of the pro-growth investment budget (IB), the authorities have set up special IB monitoring units in the technical ministries as well as in the Ministry of Finance.

**11. The authorities concurred with staff on the realism of the key budgetary objectives for 2007** (Tables 1 and 2). They reiterated commitment to reinforcing the revenue-enhancing and expenditure-control measures in effect since the second quarter of 2006. Based on provisional fiscal data for 2007, optimism about the effectiveness of these measures appears justified. By end-February 2007, both the tax department and customs had mobilized some 80 percent of projected revenue for the first quarter of 2007. Also, total revenue exceeded program projections by a wide margin at end-March 2007, and was substantially higher than in the first quarter of 2006.

**12. In the post HIPC/MDRI era, further strengthening of public expenditure management is essential to ensure adequate use of scaled-up available resources** (Box 2). Drawing from the recommendations of a recent FAD TA mission, the authorities have initiated an operational audit of public finance information management systems (SIGFIP, ASTER, and WMONEY), to be completed before end-December 2007. The audit's

recommendations would feed into a PEM reform strategy scheduled to be finalized by end-March 2008 (a structural benchmark), and implemented with FAD technical assistance (MEFP, paragraph 21).

### **Box 2: Weakened Public Expenditure Management Systems**

Benin's public finance information system (BPFIS) has two main components: SIGFIP and ASTER, the computer systems respectively for the budget department and the Treasury. The two systems are connected through an interface, but operational data exchanges between them are limited. As a result, BPFIS is, de facto, not fully integrated. The system's coverage is not comprehensive either, with some key spending categories processed outside of SIGFIP, including the *crédits délégués* and *ordres de paiement du Trésor*.

Until recently, certain automatic expenditure control mechanisms were deactivated, and the system's efficiency had considerably weakened. The authorities have reestablished BPFIS's internal automatic controls, but more reforms are needed to improve expenditure monitoring from commitment to payment, and to ensure a more efficient tracking of payments floats and eventual domestic payments arrears.

13. **Reform of the civil service pension fund is urgently needed.** With an estimated annual deficit of ½ percent of GDP, the pension fund could grow into a significant threat to medium-term budget sustainability. Hence, the authorities will complete by end-December 2007 a reform strategy for the entity, including a timetable for an early implementation.

### **C. The Structural Reform Agenda**

14. **The authorities stressed their determination to implement structural reforms in the cotton, electricity, and telecommunications sectors, as well as in the port of Cotonou, however reducing state engagement is proving a much drawn out process.** They noted that the March parliamentary elections provide the government with a strengthened mandate to pursue its reform agenda and confront social resistance to change.

15. **Government disengagement from the cotton parastatal (SONAPRA) is to be completed in 2007, but some delays are being encountered.** Due to delays in mobilizing needed technical assistance, completion of the physical assets audit, initially to be finalized in March/April 2007, will not be completed until June. As a result, state disengagement from the cotton parastatal (an end-June structural performance criterion) is postponed to November 2007—although this would still be in time for the new privately-controlled company to participate in cotton ginning activities for the 2007/08 season. World Bank staff and other representatives of the donor community in Cotonou deem that the proposed timetable revision is reasonable and does not alter the thrust of the macro-critical cotton reform program.

16. **The government in consultation with World Bank staff now envisages an 18-month restructuring period for the electricity company (SBEE) to address severe financial weaknesses and help secure investor interest in the company.**<sup>6</sup> A revised reform timetable has been developed and communicated to Fund staff (a prior action for completing the review), and the authorities have appointed a new management team to carry out the SBEE restructuring agenda. As with the telecommunications company (Benin-Telecoms), bids for privatization are now scheduled to be launched before end-January 2009.

17. **The government has handed over Port of Cotonou reform to MCA-Benin.** The authorities installed critical computer software in the port's centralized clearing and invoicing management system in October 2005, but operation of the new system has been delayed due to technical flaws, lack of adequate external assistance, and limited implementation capacity. Handing over reform to MCA-Benin provides assurances that the long-delayed port rehabilitation program will be given new impetus<sup>7</sup>. A study updating the customs reform agenda, including a related action plan, is to be completed before end-September 2007 (a structural benchmark). Proposed key measures could be included in program conditionality to gauge reform progress, going forward.<sup>8</sup> MCA-Benin is also overseeing implementation of second-generation reforms aimed at improving the working of the land tenure and judicial systems, and facilitating credit access for small- and medium-scale enterprises. Feasibility studies for these second-generation reforms are under preparation.

#### **D. Implementing the Growth and Poverty Reduction Strategy**

18. **Benin's newly issued Growth and Poverty Reduction Strategy Paper (GPRSP) places renewed emphasis on private sector-led economic growth.** The strategy seeks to enhance macroeconomic stability and promote private sector development; accelerate economic and export diversification; and encourage regional integration. Under its MDGs scenario, real GDP growth is projected to average over 7 percent during 2007-09, compared with 4.9 percent should required external assistance and structural reform progress fail to

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<sup>6</sup> SBEE's net operating deficit amounted to CFAF1.2 billion (0.1 percent of GDP) in 2005, and the company reports losses of CFAF 6 per Kwh of thermal electricity marketed in the first quarter of 2006.

<sup>7</sup> The MCA has pledged \$307 million to Benin over 5 years, of which \$169 million is devoted to port physical infrastructure development and institutional reform.

<sup>8</sup> Consequently, an initial end-June 2007 benchmark on the submission of a port reform plan (Country Report 07/6) was eliminated.

materialize. The GPRSP was submitted to donors at end-April 2007; Fund and World Bank staff have reviewed the document and issued a Joint Staff Advisory Note (JSAN)<sup>9</sup>.

19. **The authorities' goal is to raise Benin to emerging-economy status.** Within a strong private-public sector partnership framework, they have underscored development and rehabilitation of economic and social infrastructure. The details of a Special Public Works Program (*Program de Grands Travaux—PGT*) under development have yet to be finalized. The mission encouraged the authorities to discuss the program's financing requirements and potential sources of funding with Fund and World Bank staff, for appropriate policy guidance<sup>10</sup>. It also stressed the need to improve the private sector business environment if growth were to rise to a rate more conducive to reducing poverty (Box 3).

#### IV. PROGRAM MONITORING AND RISKS

20. **The authorities have requested completion of the second review.** All applicable quantitative performance criteria have been observed; and a waiver is requested for nonobservance of one structural performance criterion (the operation of consolidated electronic billing at Cotonou port). Two prior actions for completing the review address delays in implementing structural reforms (MEFP, Table 1). All other program monitoring issues are discussed in the MEFP (paragraphs 29 and 30) and technical memorandum of understanding (TMU).

21. **Beyond Benin's vulnerability to exogenous shocks, the main risk to the program relates to the country's historically weak structural reform record.** This risk appears, however, to have lessened in view of the administration's enhanced support in parliament, and should be viewed in light of the strength of the 2007 program, and the steps that have already been taken to strengthen revenue mobilization and enhance budgetary discipline. Also reassuring is the authorities' reiterated commitment to take additional measures, as needed, to address eventual slippages in program implementation.

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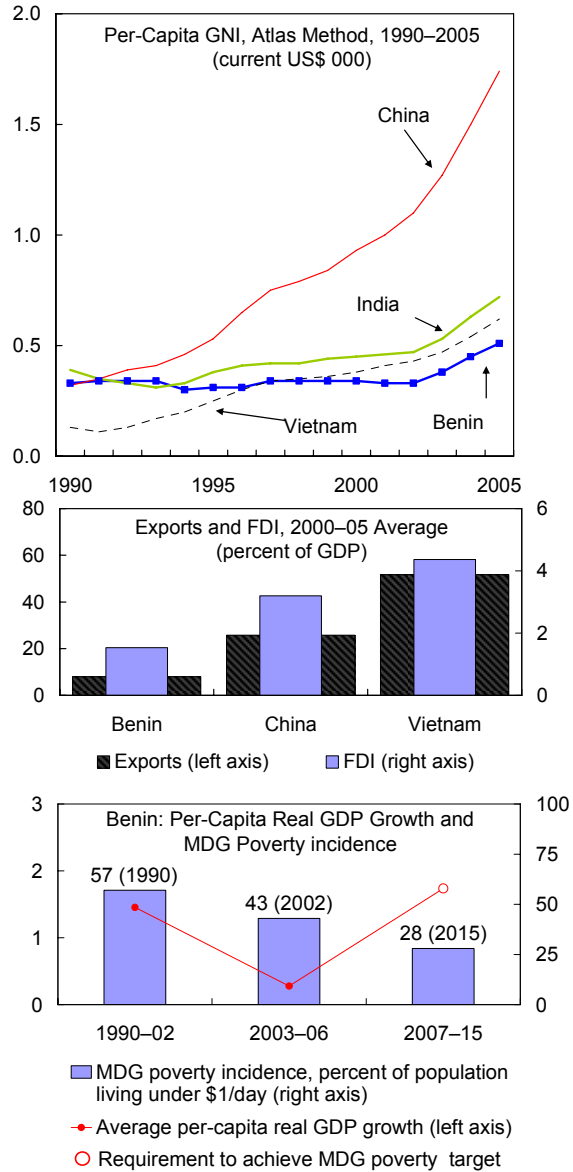
<sup>9</sup> A recent household survey shows a modest decline in poverty based on "conditions of life" parameters, but suggests an increase in monetary poverty over the first PRSP period. Staff has urged the authorities to develop more robust poverty data in the next (PRSP) APR.

<sup>10</sup> China is Benin's largest emerging creditor with total claims currently estimated at 0.6 percent of GDP. In 2005, it accounted for over 1/3 of Benin's exports and nearly 10 percent of imports. Chinese aid is mostly channeled to the infrastructure and health sectors.

### Box 3. Benin's Growth in Perspective

Even with some recent pick up, Benin's growth rate remains below the average in sub-Saharan Africa and well below that in the dynamic economies of Asia. By creating a virtuous circle of growth, capital inflows, and strong exports, the latter have raised their per-capita GDP significantly beyond Benin's, despite starting with similar levels at the beginning of the 1990s.

Reducing poverty to half its 1990 level by 2015, as called for under the MDGs, is likely to require an acceleration of growth over the coming decade. Real per-capita GDP growth has averaged just 1.1 percent since 1990. While this has been associated with a significant decline in the proportion of Benin's population living with less than one dollar a day, it nevertheless implies that a doubling of real income levels would take 63 years. Staff calculations suggest that real per-capita income growth may need to increase to an average of 1 3/4 percent per year over the next ten years for Benin to reach the MDG. But, it would have to accelerate to 5.9 percent for the level of per-capita GDP to increase to twice its 1990 equivalent.



Sources: IFS, WDI, WEO, and Fund staff calculations.

## V. STAFF APPRAISAL

22. **Benin's macroeconomic performance remains broadly on track, although a number of constraints to growth ought to be addressed.** The fiscal situation and short-term growth prospects continue to improve. For further progress in 2007, authorities will need to ease the energy situation, help ensure adequate and timely provision of cotton fertilizers, effectively disengage from the cotton parastatal, and continue lessening tensions in intra-regional trade.
23. **To advance more rapidly toward emerging-economy status and speed up poverty reduction, structural reforms need to be accelerated.** With parliamentary elections concluded, the authorities need to consolidate recent gains in poverty alleviation by expediting the structural reform agenda. However, privatization of the cotton ginning company, an end-June structural performance criterion, is being postponed to November 2007, and the timetable for state disengagement from SBEE and Benin Telecoms has been set back to early 2009. The authorities have indicated that they would strictly adhere to the revised reform timetable. Nonetheless, this further delay is regrettable given that efficient operation of the cotton sector and steady availability of quality utility services are key to unlocking Benin's economic competitiveness and potential. Any slippage from the latest timetable would put the program's goals in question.
24. **Staff welcomes MCA-Benin's involvement in the reform of the port as well as the judicial and land tenure systems.** The port plays a major role in the economy and it is vital to get its reform moving again. Second-generation reforms, including those seeking to facilitate credit access to small- and medium-sized enterprises, are needed to promote private sector development and permit diversification of the production and export base, thus enhancing the economy's resilience to external shocks. Resolute implementation of related measures is critical.
25. **A strengthening of Benin's public expenditure management systems has become vital.** It will ensure that potentially scaled-up resources in the post HIPC/MDRI era are put to best use. Thus, staff urges the authorities to expedite preparation of their PEM strategy, and to ensure its early implementation. It welcomes the steps the authorities have taken to improve execution and monitoring of the investment budget.
26. **The authorities understand the risks to Benin's PRGF-supported program.** Staff urges them to continue to improve revenue mobilization while keeping spending at levels compatible with medium-term fiscal and macroeconomic viability, privatize public utilities, and reform the land tenure and judicial systems. It encourages them to take advantage of the government's strengthened political mandate, and to intensify their open dialogue with other social partners with a view to strengthening acceptance of reform policies outside of parliament as well.

27. **Staff recommends completion of the second PRGF review and supports authorities' request for a waiver for the missed performance criterion.** Handing over port reform to an external agency signals a new seriousness to address the implementation problems in this macro-critical area.



Table 1. Benin: Main Economic and Financial Indicators, 2005–09

	2005	2006		2007		2008		2009
		Ctry. Rpt.	Est.	Ctry. Rpt.	Proj.	Ctry. Rpt.	Proj.	Proj.
		07/6 <sup>1/</sup>		07/6		06/146		
(Annual changes in percent, unless otherwise indicated)								
National income								
GDP at current prices	8.5	7.3	7.1	7.6	7.8	8.1	8.2	8.4
GDP at constant prices	2.9	4.5	4.1	5.1	4.5	5.5	5.2	5.5
GDP deflator	5.4	2.6	2.9	2.4	3.1	2.4	2.8	2.7
Consumer price index (average)	5.4	3.0	3.8	2.5	3.0	2.5	2.8	2.8
Consumer price index (end of period)	3.7	2.4	5.3	2.5	2.9	2.5	2.9	2.9
Production of cotton (in '000 of tons) 2/	190.8	350.0	285.0	463.6	420.0	538.8	476.0	527.3
Central government finance								
Revenue	9.1	7.0	8.7	12.6	10.2	12.8	14.1	11.3
Expenditure and net lending	13.9	9.3	-2.0	13.2	21.1	10.5	11.4	9.1
Money and credit								
Net domestic assets 3/	13.0	0.4	-4.3	8.8	1.5	1.7	6.1	6.2
Domestic credit 3/	13.4	0.4	-2.8	8.1	0.8	4.5	3.7	2.9
Net claims on central government 3/	3.2	-5.5	-7.4	-0.8	-4.8	-0.7	-0.7	-2.1
Credit to the nongovernment sector	20.2	11.4	9.0	15.1	11.1	7.0	8.1	9.3
Broad money	21.8	2.9	16.3	12.3	5.2	4.3	8.4	8.4
Velocity (GDP relative to average M2)	3.7	3.6	3.3	3.6	3.3	3.6	3.3	3.3
External sector (in terms of CFA francs)								
Exports, f.o.b.	-5.2	-1.5	-14.3	34.3	30.7	10.1	24.9	17.2
Imports, f.o.b.	-5.5	4.2	1.6	15.7	13.7	7.8	10.4	10.9
Export volume	22.7	-11.1	-9.1	36.3	25.1	14.2	15.3	9.4
Import volume	3.3	4.0	4.2	4.5	9.7	5.0	9.0	8.7
Terms of trade (minus = deterioration)	-15.9	10.6	-3.1	-11.1	0.8	-6.0	7.0	5.0
Nominal effective exchange rate (minus = depreciation)	-0.5	...	-0.3	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	2.2	...	0.2	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)								
Basic ratios								
Gross investment	19.6	21.0	18.1	21.8	21.7	22.4	22.1	22.3
Government investment	6.2	7.4	4.6	8.1	8.2	8.6	8.7	8.9
Private sector investment	13.4	13.6	13.6	13.7	13.5	13.8	13.4	13.4
Gross domestic saving	9.5	10.2	7.1	11.3	10.9	12.3	12.1	12.6
Government saving	3.3	5.1	2.2	5.5	5.6	6.1	6.3	5.8
Nongovernment saving	6.2	5.2	4.9	5.9	5.3	6.2	5.8	6.8
Gross national saving	12.9	13.9	11.7	15.0	15.5	15.9	16.2	16.7
Central government finance								
Revenue	16.5	16.5	16.8	17.2	17.2	18.0	18.1	18.6
Expenditure and net lending	21.1	21.5	19.3	22.6	21.7	23.1	22.3	22.5
Primary balance 4/	-4.3	-4.8	-2.3	-5.1	-4.2	-4.9	-3.9	-3.5
Primary balance (narrow definition) 5/	-1.4	-0.9	0.4	-0.5	0.0	0.0	0.6	1.0
Overall fiscal deficit (payment order basis, excluding grants)	-4.6	-5.0	-2.5	-5.4	-4.5	-5.1	-4.2	-3.9
Overall fiscal deficit (cash basis, excluding grants)	-3.6	-5.2	-2.2	-5.8	-6.1	-5.5	-4.7	-4.3
Debt service (after debt relief) in percent of revenue 1/ 6/	7.0	4.0	3.6	3.9	3.4	3.7	3.3	3.0
External sector								
Trade balance	-9.6	-9.7	-10.2	-9.3	-9.8	-9.1	-9.0	-8.7
Current account balance (excluding grants)	-7.1	-7.0	-7.1	-6.7	-6.3	-6.5	-5.9	-5.6
Current account balance (including grants)	-6.7	-7.0	-6.4	-6.7	-6.1	-6.5	-5.9	-5.6
Overall balance of payments	3.0	-1.3	4.7	-1.2	-0.6	-0.8	-0.3	-0.7
Debt-service to exports ratio 1/	6.5	5.4	5.6	4.8	4.9	4.8	4.5	4.1
Net present value of debt-to-exports ratio 7/	81.6	82.3	88.5	75.1	81.6	77.5	77.4	78.5
Debt-to-GDP ratio (after HIPC and before MDRI)	36.9	36.2	36.1	34.7	33.7	33.8	32.8	31.9
Debt-to-GDP (post MDRI)	36.9	12.7	10.5	13.4	11.0	14.2	11.9	12.8
Gross reserves in months of imports	11.3	11.4	14.7	10.5	13.7	10.2	12.9	12.0
Nominal GDP (in billions of CFA francs)	2,319.7	2,488.0	2,485.3	2,678.1	2,680.0	2,893.8	2,898.7	3,142.3
CFA francs per U.S. dollar (period average)	526.6	524.7	522.4	513.1	498.4	510.5	496.5	496.5
Population (midyear, in millions)	7.4	7.6	7.6	7.9	7.9	8.1	8.1	8.3

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

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

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

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

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

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

6/ Interest payment only.

7/ After HIPC relief and before MDRI.

Table 2 . Benin: Consolidated Central Government Operations, 2005–09

	2005	2006		2007		2008		2009
		Ctry. Rept. 07/6 <sup>1/</sup>	Est.	Ctry. Rept. 07/6	Proj.	Ctry. Rept. 07/6	Proj.	Proj.
(In billions of CFA francs)								
Total revenue	383.4	410.4	416.9	462.0	459.7	520.9	524.3	583.6
Tax revenue	334.0	366.7	378.8	414.0	416.5	468.5	475.9	531.5
Tax on international trade	174.8	190.9	207.4	212.7	221.4	242.7	257.0	283.6
Direct and indirect taxes	159.2	175.8	171.4	201.3	195.1	225.7	218.9	247.9
Nontax revenue	49.4	43.8	38.1	47.9	43.2	52.5	48.4	52.1
Total expenditure and net lending	489.3	534.9	479.6	605.7	580.6	669.1	647.1	705.8
Current expenditures	345.9	350.8	365.0	389.0	361.2	420.5	393.9	426.9
Current primary expenditures	339.0	345.0	359.2	381.5	353.9	413.2	383.6	415.5
Wages	130.3	138.1	135.0	148.4	145.1	159.6	156.0	167.7
Pensions and scholarships	26.5	29.8	29.3	32.1	31.6	34.7	34.2	37.0
Transfers and current expenditures	182.2	177.1	194.9	200.9	177.2	218.9	193.4	210.8
Current transfers	81.8	76.6	102.2	78.9	76.9	85.2	83.2	90.6
Other current expenditure	100.4	100.5	92.7	122.1	100.3	133.7	110.2	120.2
Interest	6.9	5.8	5.8	7.5	7.3	7.3	10.3	11.3
Internal debt	1.3	0.2	0.2	1.7	1.7	0.2	3.4	3.3
External debt	5.6	5.7	5.6	5.8	5.6	7.1	6.9	8.1
Capital expenditures and net lending	143.4	184.0	114.6	216.7	219.4	248.7	253.2	278.9
Investment	144.2	184.0	113.4	216.7	219.4	248.7	253.2	278.9
Financed by domestic resources	76.3	87.4	48.6	94.1	106.2	108.1	123.3	136.6
Financed by external resources	67.9	96.7	64.8	122.7	113.2	140.5	129.9	142.3
Net lending (minus = reimbursement)	-0.8	0.0	1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-105.8	-124.5	-62.6	-143.8	-120.9	-148.2	-122.7	-122.2
Change in arrears	-19.0	-46.0	-12.2	-13.0	-43.0	-13.0	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-19.0	-46.0	-12.2	-13.0	-43.0	-13.0	-15.0	-15.0
Payments during complementary period/float 2/	40.2	40.9	20.0	0.5	0.5	1.0	1.0	1.5
Overall balance (cash basis, excl. grants)	-84.7	-129.6	-54.9	-156.3	-163.4	-160.2	-136.7	-135.7
Financing	84.7	79.0	54.9	98.9	118.6	116.5	107.8	95.2
Domestic financing	-6.4	-38.0	-49.6	-11.7	-4.1	-11.7	-11.7	-37.4
Bank financing	18.2	-38.3	-51.3	-5.7	-31.6	-5.7	-5.7	-18.8
Net use of Fund resources	-3.4	-30.6	-31.3	1.3	1.3	1.3	1.3	0.7
Disbursements	0.7	0.7	0.0	1.3	1.3	1.3	1.3	0.7
Repayments	-4.1	-31.3	-31.3	0.0	0.0	0.0	0.0	0.0
Other	21.5	-7.7	-20.1	-7.0	-32.9	-7.0	-7.0	-19.5
Nonbank financing	-24.6	0.3	1.7	-6.0	27.6	-6.0	-6.0	-18.5
Privatization	0.5	0.0	0.0	0.0	15.0	0.0	0.0	0.0
Restructuring	-26.5	-2.0	-5.7	-6.0	-6.0	-6.0	-6.0	-5.0
Other	1.5	2.3	7.5	0.0	18.6	0.0	0.0	-13.5
External financing	91.1	-466.9	-465.7	110.6	122.7	128.2	119.5	132.6
Project financing	67.9	96.7	64.8	122.7	113.2	140.5	129.9	142.3
Grants	39.7	56.1	37.6	72.4	60.6	82.2	68.8	76.1
Loans	28.1	40.6	27.2	50.2	52.6	58.3	61.1	66.2
Amortization due	-9.7	-563.6	-548.5	-12.1	-10.3	-12.3	-10.5	-9.7
Program aid	33.0	0.0	18.1	0.0	19.8	0.0	0.0	0.0
Grants	8.2	0.0	18.1	0.0	4.5	0.0	0.0	0.0
Loans	24.8	0.0	0.0	0.0	15.3	0.0	0.0	0.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants		583.9	570.2	0.0	0.0	0.0	0.0	0.0
IMF		31.3	31.3					
IDA & AfDF		552.6	538.9					
Financing gap	0.0	50.6	0.0	57.4	44.8	43.7	29.0	40.5
Memorandum items:	(In percent of GDP, unless otherwise indicated)							
Total grants and revenue	18.6	18.8	19.0	20.0	19.6	20.8	20.5	21.0
Grants	2.1	2.3	2.2	2.7	2.4	2.8	2.4	2.4
Revenue	16.5	16.5	16.8	17.2	17.2	18.0	18.1	18.6
Total expenditure	21.1	21.5	19.3	22.6	21.7	23.1	22.3	22.5
Of which: wage bill	5.6	5.5	5.4	5.5	5.4	5.5	5.4	5.3
Capital expenditure	6.2	7.4	4.6	8.1	8.2	8.6	8.7	8.9
Overall balance (payment order basis, excl. grants)	-4.6	-5.0	-2.5	-5.4	-4.5	-5.1	-4.2	-3.9
Overall balance (payment order basis, incl. grants)	-2.5	-2.7	-0.3	-2.7	-2.1	-2.3	-1.9	-1.5
Primary balance	-4.3	-4.8	-2.3	-5.1	-4.2	-4.9	-3.9	-3.5
Primary balance (narrow definition) 3/	-1.4	-0.9	0.4	-0.5	0.0	0.0	0.6	1.0
Current balance	1.6	2.4	2.1	2.7	3.7	3.5	4.5	5.0
Debt relief (in billions of CFA francs)	0.0	20.2	20.1	19.7	19.2	19.2	18.6	16.8
GDP (in billions of CFA francs)	2,319.7	2,488.0	2,485.3	2,678.1	2,680.0	2,893.8	2,898.7	3,142.3

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

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

2/ Payment orders carried over to the following fiscal year.

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

Table 3. Benin: Central Government Operations, Quarterly , 2007  
(Cumulative value in billions of CFA francs)

	2007			
	March	June	Sept.	Dec.
	Projections			
Total revenue	97.3	204.2	323.1	459.7
Tax revenue	89.0	187.1	293.9	416.5
Tax on international trade	46.7	97.1	153.9	221.4
Direct and indirect taxes	42.3	90.0	140.0	195.1
Nontax revenue	8.3	17.1	29.2	43.2
Total expenditure and net lending	120.6	227.8	366.9	580.6
Current expenditures	88.3	163.7	264.7	361.2
Current primary expenditures	87.0	159.6	259.6	353.9
Wages	36.3	66.0	110.3	145.1
Pensions and scholarships	7.9	15.8	23.7	31.6
Transfers and current expenditures	42.8	77.8	125.7	177.2
Current transfers	22.0	36.0	61.0	76.9
Other current expenditure	20.8	41.8	64.7	100.3
Interest	1.2	4.1	5.0	7.3
Internal debt	0.0	0.1	0.5	1.7
External debt	1.2	4.0	4.5	5.6
Capital expenditures and net lending	32.3	64.1	102.2	219.4
Investment	32.3	64.1	102.2	219.4
Financed by domestic resources	18.1	31.7	52.8	106.2
Financed by external resources	14.3	32.4	49.4	113.2
Net lending (minus = reimbursement)	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-23.3	-23.6	-43.8	-120.9
Change in arrears	-2.5	-40.2	-40.2	-43.0
External debt	0.0	0.0	0.0	0.0
Domestic debt	-2.5	-40.2	-40.2	-43.0
Change in payments float	-8.7	-11.0	-4.6	0.5
Overall balance (cash basis, excl. grants)	-34.6	-74.8	-88.6	-163.4
Financing	34.5	70.3	68.3	118.6
Domestic financing	-8.4	-1.6	5.0	-4.1
Bank financing	-39.2	-45.8	-38.6	-31.6
Net use of Fund resources	0.7	0.7	1.3	1.3
Other	-39.9	-46.5	-39.9	-32.9
Nonbank financing	30.8	44.2	43.6	27.6
Privatization	0.0	15.0	15.0	15.0
Restructuring	-2.1	-3.7	-4.3	-6.0
Other	32.9	32.9	32.9	18.6
External financing	42.8	71.9	63.3	122.7
Project financing	25.4	59.5	53.0	113.2
Grants	12.3	31.1	8.4	60.6
Loans	13.0	28.4	44.7	52.6
Amortization due	-2.3	-7.5	-9.5	-10.3
Program aid	19.8	19.8	19.8	19.8
Grants	4.5	4.5	4.5	4.5
Loans	15.3	15.3	15.3	15.3
MDRI grants	0.0	0.0	0.0	0.0
Financing gap	0.1	4.5	20.3	44.8
Financing assurances	0.0	4.5	20.3	44.8
World Bank	0.0	0.0	2.5	14.9
AfDB	0.0	0.0	12.0	12.0
EU (grants)	0.0	4.5	4.5	7.2
Others	0.0	0.0	1.3	10.7
Memorandum items:				
Primary expenditure 2/	119.4	223.6	361.9	573.3
Primary balance 3/	-22.1	-19.5	-38.8	-113.7
Primary balance (narrow definition) 4/	-7.8	12.9	10.7	-0.5
Current balance	9.0	40.5	58.4	98.5
Nominal GDP	2,680.0	2,680.0	2,680.0	2,680.0

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

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

2/ Total expenditure minus interest obligations.

3/ Total revenue minus primary expenditure.

4/ Total revenue minus primary expenditure excluding foreign financed capital expenditure and net lending.

Table 4. Benin: Balance of Payments, 2005–09

	2005	2006 <sup>1/</sup>		2007		2008		2009
		Ctry. Rept. 07/6	Est.	Ctry. Rept. 07/6	Proj.	Ctry. Rept. 07/6	Proj.	Proj.
(In billions of CFA francs)								
Trade balance 2/	-221.7	-242.2	-252.3	-249.2	-261.8	-263.3	-261.2	-274.5
Exports, f.o.b.	171.6	167.6	147.2	225.1	192.3	247.8	240.2	281.6
Cotton and textiles	93.0	78.3	51.5	107.2	87.1	121.6	125.9	152.5
Other	78.6	89.4	95.7	117.9	105.2	126.2	114.4	129.1
Imports, f.o.b.	-393.3	-409.8	-399.4	-474.3	-454.1	-511.1	-501.5	-556.2
Of which: petroleum products	-69.0	-106.3	-83.0	-130.7	-90.0	-135.6	-100.4	-109.3
Services (net)	-24.8	-24.2	-22.3	-30.7	-27.1	-29.1	-30.0	-31.7
Credit	129.6	137.2	121.1	146.4	128.0	158.1	146.2	152.3
Debit	-154.4	-161.4	-143.4	-177.1	-155.0	-187.2	-176.2	-183.0
Income (net)	-20.3	-25.2	-18.1	-27.1	-22.5	-27.4	-24.5	-25.9
Of which: interest due on government debt	-5.6	-5.7	-5.6	-5.8	-5.6	-7.1	-6.9	-8.1
Current transfers (net)	111.1	116.8	134.0	126.2	146.7	130.4	144.7	155.1
Unrequited private transfers	63.6	63.2	72.4	67.7	76.7	68.5	78.5	84.5
Public current transfers	47.5	53.5	61.6	58.5	70.0	61.9	66.2	70.6
Of which: program grants	8.2	0.0	18.1	0.0	4.5	0.0	0.0	0.0
Current account balance	-155.7	-174.7	-158.7	-180.7	-164.7	-189.5	-171.1	-177.1
Current account balance (excl. program grants)	-163.9	-174.7	-176.7	-180.7	-169.2	-189.5	-171.1	-177.1
Capital account balance	39.7	640.0	607.8	72.4	60.6	82.2	68.8	76.1
Official project grants 3/	39.7	56.1	37.6	72.4	60.6	82.2	68.8	76.1
Debt cancellation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital transfers (MDRI grants)	0.0	583.9	570.2	0.0	0.0	0.0	0.0	0.0
IMF (Stock operation)	0.0	31.3	31.3	0.0	0.0	0.0	0.0	0.0
World Bank (IDA) & AfDB (stock op.)	0.0	552.6	538.9	0.0	0.0	0.0	0.0	0.0
Financial account (net)	186.3	-498.8	-333.3	75.9	89.2	83.9	93.3	80.5
Medium- and long-term public capital	47.0	-519.0	-517.4	42.1	61.6	50.1	59.7	56.5
Disbursements	56.8	44.5	31.1	54.2	71.8	62.4	70.2	66.2
Project loans	32.0	44.5	31.1	54.2	56.6	62.4	70.2	66.2
Program loans	24.8	0.0	0.0	0.0	15.3	0.0	0.0	0.0
Amortization due	-9.7	-563.6	-548.5	-12.1	-10.3	-12.3	-10.5	-9.7
Medium- and long-term private capital	58.7	20.2	56.4	33.7	27.7	33.7	33.5	24.0
Deposit money banks	-20.4	0.0	26.5	0.0	0.0	0.0	0.0	0.0
Short-term capital	55.0	0.0	53.5	0.0	0.0	0.0	0.0	0.0
Errors and omissions	46.0	0.0	47.7	0.0	0.0	0.0	0.0	0.0
Overall balance	70.4	-33.6	115.8	-32.4	-14.8	-23.4	-9.0	-20.5
Financing	-70.4	-17.0	-115.8	-25.0	-30.0	-20.3	-20.0	-20.0
Change in net foreign assets (minus = increase)	-70.4	-17.0	-115.8	-25.0	-30.0	-20.3	-20.0	-20.0
Of which: net use of Fund resources	-1.9	-30.6	-30.6	-1.3	-1.3	-1.3	-1.3	-0.7
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	50.6	0.0	57.4	44.8	43.7	29.0	40.5
Memorandum items:	(In percent of GDP, unless otherwise indicated)							
Net reexports	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.6
Reexports	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.4
Imports for reexports	-3.0	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.7
Current account balance	-6.7	-7.0	-6.4	-6.7	-6.1	-6.5	-5.9	-5.6
Current account balance (excl. program grants)	-7.1	-7.0	-7.1	-6.7	-6.3	-6.5	-5.9	-5.6
Trade balance	-9.6	-9.7	-10.2	-9.3	-9.8	-9.1	-9.0	-8.7
Exports	7.4	6.7	5.9	8.4	7.2	8.6	8.3	9.0
Imports	-17.0	-16.5	-16.1	-17.7	-16.9	-17.7	-17.3	-17.7
Services and income (net)	-1.9	-2.0	-1.6	-2.2	-1.8	-2.0	-1.9	-1.8
Current transfers (net)	4.8	4.7	5.4	4.7	5.5	4.5	5.0	4.9
Capital account balance	1.7	25.7	24.5	2.7	2.3	2.8	2.4	2.4
Financial account balance	8.0	-20.0	-13.4	2.8	3.3	2.9	3.2	2.6
Overall balance	3.0	-1.3	4.7	-1.2	-0.6	-0.8	-0.3	-0.7
Financing gap	0.0	2.0	0.0	2.1	1.7	1.5	1.0	1.3
GDP (in billions of CFA francs)	2,319.7	2,488.0	2,485.3	2,678.1	2,680.0	2,893.8	2,898.7	3,142.3

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

1/ Incorporating the MDRI resources for the IMF, IDA and AfDF in stock operations.

2/ Excluding reexports and imports for reexports, net balance of which is allocated between services and public transfers.

3/ Official capital grants from the United States (MCA) of the amount of US \$ 307 millions will be disbursed over the period 2006-2011.

4/ The entry in 2003 is for the stock of debt operation at the HIPC completion point.

Table 5. Benin: Monetary Survey, 2004–07

	2004	2005	2006		2007	
			Ctry. Rept 07/6 <sup>1</sup>	Est. <sup>1/</sup>	Ctry. Rept 07/6	Proj.
(In billions of CFA francs)						
Net foreign assets	336.7	386.7	404.3	529.0	429.3	559.0
Central Bank of West African States (BCEAO)	257.6	328.0	345.5	443.8	370.5	473.8
Banks	79.1	58.7	58.7	85.2	58.7	85.2
Net domestic assets	230.3	304.1	306.4	274.8	368.7	286.5
Domestic credit	280.0	356.0	358.9	336.6	416.1	343.3
Net claims on central government	-38.9	-20.8	-59.0	-72.1	-64.7	-110.7
Credit to the nongovernment sector	312.1	375.1	417.9	408.7	480.9	454.0
Other items (net)	-49.7	-51.9	-52.5	-61.9	-47.5	-56.9
Broad money (M2)	567.0	690.8	710.7	803.8	797.9	845.5
Currency	129.9	195.2	209.4	253.0	225.4	272.8
Bank deposits	429.0	487.0	492.7	541.6	564.0	563.5
Deposits with postal checking accounts	8.1	8.6	8.6	9.2	8.6	9.2
(Change in percent of beginning-of-period broad money, unless otherwise indicated)						
Net foreign assets	-10.1	8.8	2.5	20.6	3.5	3.7
Net domestic assets	3.4	13.0	0.4	-4.3	8.8	1.5
Domestic credit	4.8	13.4	0.4	-2.8	8.1	0.8
Net claims on government	1.5	3.2	-5.5	-7.4	-0.8	-4.8
Credit to nongovernment sector	2.2	11.1	6.2	6.1	8.9	4.6
Broad money	-6.7	21.8	2.9	16.3	12.3	5.2
Velocity of broad money	3.6	3.7	3.6	3.3	3.6	3.3
Credit to the nongovernment sector (annual change in percent)	4.5	20.2	11.4	9.0	15.1	11.1
Broad money as share of GDP	26.5	29.8	28.6	32.3	29.8	31.5
Nominal GDP (in billions of CFA francs)	2,138.2	2,319.7	2,488.0	2,485.3	2,678.1	2,680.0
Nominal GDP growth (annual change in percent)	3.4	8.5	7.3	7.1	7.6	7.8

Sources: BCEAO; and IMF staff estimates and projections.

<sup>1/</sup> Projections incorporate the effect of the cancellation of Fund credit under the MDRI.

Table 6. Benin: Schedule of Disbursements under the PRGF Arrangement, 2005-09 1/

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

Source: International Monetary Fund.

1/ Assuming access equivalent to 10 percent of quota, or SDR 6.19 million.

2/ Other than the generally applicable conditions under the PRGF arrangement, including the performance clause on the exchange and trade system.

Table 7. Benin: Millennium Development Goals

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

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

**APPENDIX—LETTER OF INTENT**

Republic of Benin  
Ministry of Development,  
Economy, and Finance

Cotonou, May 22, 2007

The Minister

To

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Mr. de Rato:

1. The government of the Republic of Benin is determined to provide fresh impetus to growth with a view to achieving significantly greater poverty reduction. The government's aim is to transform the country into an emerging economy and, to that end, it is committed to consolidating recent gains in macroeconomic stability and making up for delays in implementing its ambitious structural reform agenda. In this context, execution of the government's financial program under the Poverty Reduction and Growth Facility (PRGF) was broadly satisfactory in 2006.
2. Discussions with Fund staff on the second program review found that all but two of the quantitative and structural performance criteria and benchmarks for the period under review had been observed, and that remedial steps had been taken to ensure achievement of the program objectives pertaining to the missed structural performance criterion and benchmark in the future. These relate to the introduction of consolidated electronic billing (BFU) at the one-stop window of the port of Cotonou (a structural performance criterion for end-December 2006) and submission to Fund staff of an evaluation report on the government's wage debt to civil servants (an end-December 2006 structural benchmark).
2. Delays in the reform of the port of Cotonou, including the effective start-up of the BFU, were due to lack of adequate technical assistance and limited local implementation capacity. To expedite implementation, the government has fully integrated port reform into the Millennium Challenge Account program supported by a grant from the United States. The government has also finalized a report on its wage debt to civil servants, and submitted it to Fund staff. In view of the corrective measures taken, the government is seeking both a



waiver for nonobservance of the structural performance criterion on the BFU, and the completion of the second program review and disbursement of related PRGF resources.

3. Real GDP growth rebounded to 4.1 percent in 2006, and is expected to reach 4.5 percent in 2007, largely dependent on developments in agriculture, especially cotton, and in the services sector. In 2007, beyond a further increase in cotton production, economic activity is underpinned by a pick up in investment demand, and improvements in the competitiveness of the port of Cotonou. The government remains committed to its prudent macroeconomic policy stance. To accelerate the pace of economic activity and reduce poverty, it is endeavoring to further improve the business climate. In this perspective, continued IMF technical and financial assistance under the PRGF-supported program approved in August 2005 remains crucial.

4. The government consents to the publication of both the IMF staff report on discussions under the second PRGF review and related Memorandum of Economic and Financial Policies.

Truly yours,

Pascal I. Koupaki

**BENIN****ATTACHMENT I—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2007****I. INTRODUCTION**

1. The government is undertaking reforms to accelerate the pace of economic activity and address a slowdown in growth since the early 2000s. Subdued economic performance in recent years has resulted from delays in implementing structural reforms, particularly in the key cotton, electricity, and telecommunications sectors. It is also due to external shocks stemming from unfavorable international cotton and oil price developments. To boost growth and reduce poverty more effectively, the government is determined to accelerate economic reforms with International Monetary Fund (IMF) assistance under a Poverty Reduction and Growth Facility (PRGF)-supported financial program approved in August 2005.

2. **This Memorandum reviews progress in program implementation in 2006 and broadly outlines the government's economic and financial policy for 2007.**

**II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE****A. Economic Developments**

3. **In 2006, the downward trend in economic growth noted since 2003 was reversed, inflation moderated, and the current account balance stabilized.** However, despite government efforts to restore confidence in the cotton sector notably by clearing various debts owed to small producers, real GDP growth of 4.1 percent fell short of the programmed 4.5 percent. This was due to the combined effects of lower-than-expected cotton production, a slowdown in industrial activity as a result of intermittent electricity shortages, and insufficient supply of petroleum products. As inflationary pressures eased in 2006, reflecting improved food availability, the rate of inflation fell to 3.8 percent from 5.4 percent in 2005. Nonetheless, Benin's inflation remained above the WAEMU average, driven by high international petroleum prices and insufficient supplies of energy products on the parallel market. The trade balance worsened due to a drop in cotton exports and a rise in imports of petroleum products through formal channels by SONACOP. However, it was offset by solid increase in unrequited transfers and program budgetary support. Consequently, the current account balance, excluding grants, stabilized at around 7 percent of GDP.

4. **Growth of money supply remained strong, exceeding nominal GDP growth.** Developments in monetary aggregates included a substantial increase in net foreign assets and a marked contraction of net bank credit to the government. The latter reflecting the positive impact of the MDRI and some increase in Treasury's

bank deposits. Debt relief, including bilateral debt cancellations, granted to Benin, a favorable trade balance in informal sector exchanges with the countries of the sub-region, and financial support from development partners explain the strengthening of official foreign exchange reserves at end-2006, with gross reserves rising to the equivalent of about 15 months of imports. Growth of credit to the economy remained relatively high (9 percent) despite the increase in the required reserve ratio in mid-2005 and in the central bank's policy rates in August 2006<sup>11</sup>. Money supply grew substantially more than nominal GDP.

5. **Budget execution featured higher revenues, lower expenditure in certain categories, and increased Treasury's deposits with the banking system.** As in 2005, government revenue rose by 9 percent in 2006 to reach 16.8 percent of GDP, or 0.3 percentage point above the program objective. This reflects a good performance of customs revenue due to : (i) improvements in internal governance through major personnel changes, (ii) more efficient use of computer technology, (iii) greater efforts to improve import valuation, (iv) stepped-up efforts to streamline customs clearance procedures, and (v) improved tracking of exemptions. Despite good performance of VAT and other taxes on goods and services, overall revenue collection by the Directorate General of Taxes and Government Property (DGID) fell slightly short of program expectations. Contributing factors include a decline in income tax revenue due to subdued economic activity in the previous year, continuing difficulties in managing accumulated tax credits, and limited efficiency of the tax administration, especially in the Large Taxpayer Unit (DGE) and the Medium-Sized Enterprise Tax Centers (CIMES).

6. **Current expenditure excluding transfers and investment spending were lower than programmed.** Facing significant slippages in the first quarter of 2006, the government took steps to restore fiscal discipline. In particular, the government set up a cash flow committee to track revenue and expenditure more closely and to better align spending commitments with available government resources. Further, Treasury payment orders were used only on an exceptional basis. The measures led to reductions in both current and capital expenditure. The execution rate for the investment budget of 57 percent was too low to adequately support the government's growth objectives. With the wage bill being contained within the budget limits, total expenditure amounted to 19.3 percent of GDP, lower than the programmed 21.5 percent of GDP, thus contributing to a primary budget surplus of 0.4 percent of GDP, compared to the programmed deficit of 0.9 percent of GDP. External budget support was below program expectation.

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<sup>11</sup> In August 2006, the BCEAO raised policy rates for Benin by a quarter of a percentage point given developments on the international financial market, in particular the rise in ECB interest rates.

## B. Program Implementation

7. **All but one performance criterion for end-December 2006 were met.** (Tables 1 and 2). The missed performance criterion, in the structural area, concerns the introduction of consolidated electronic billing at the port of Cotonou. Also, an assessment report on the government's wage debt to civil servants, a structural bench mark, was not completed. Importantly, the government reiterated its determination to disengage from the cotton, electricity, and telecommunications parastatals, with technical assistance from the World Bank.

## III. ECONOMIC AND FINANCIAL POLICIES FOR 2007

### A. Macroeconomic Framework

8. **The authorities are determined to provide fresh impetus to growth to accelerate poverty reduction.** Efforts are undertaken to transform Benin into a middle-income country. To this end, the government is committed to preserve macroeconomic stability by considerably improving fiscal management. It is also determined to make up for delays in the implementation of key structural reforms.

9. **Short-term macroeconomic prospects are generally encouraging.** In 2007, economic growth is expected to reach 4.5 percent, driven by improvements in cotton sector performance resulting in part from privatization of SONAPRA's factories. Economic activity would also be sustained by further competitiveness gains at the port and improved trade relations with Nigeria. Inflation is expected to remain under control and below the WAEMU convergence criterion of 3 percent. Despite increased imports of petroleum products and other capital goods, the current account deficit excluding grants is expected improve to 6.3 percent of GDP aided by a recovery in exports, including cotton.

10. **The authorities will seek to mitigate uncertainties regarding the 2007 macroeconomic outlook.** Risks include volatility in world oil and cotton prices, and insufficient energy supply. The government intends to take all steps to address domestic growth-impeding factors; it is especially committed to ensuring successful implementation of programmed reforms, particularly in the port and cotton sectors. Regarding the cotton sector, the government intends to penalize any activities likely to disrupt the supply of fertilizers and other inputs.

### B. Fiscal Policy

11. **The 2007 budget is in line with the government's prudent fiscal policy and shows a marked redirection of expenditure toward pro-growth spending.** The

government is capitalizing on the fiscal space created by stronger public revenue collection and by debt cancellation under the MDRI. The 2007 budget is consistent with the macroeconomic framework under the three-year reform program supported by IMF resources under the PRGF.

12. **Total revenue is to increase by around ½ percent of GDP to reach 17.2 percent of GDP.** The revenue mobilization efforts will focus on: (i) a gradual elimination of the withholding income tax system (AIB) to normalize management of the related taxes; (ii) improvements in tax administration focusing on the DGE and CIMEs, whose jurisdictional thresholds have been revised to refocus their activities on tracking the activities of the largest taxpaying enterprises; (iii) introduction of the Single Taxpayer Identification Number by end-2007; (iv) elimination of the tax office at the port; (v) simplification and speeding-up of customs declaration and clearance procedures and extension of the ASYCUDA++ software to regional customs offices (program structural benchmark); (vi) strict tracking of tax and customs exemptions granted; and (vii) strengthening of the human and physical resources of the agencies.

13. **DGID has made some amendments to tax legislation in 2007.** Beyond measures to enhance the efficiency of the tax and customs administrations, the General Tax Code was changed to include the imposition of the VAT on advertisement services and introduction of a 5 percent withholding tax on fees paid to part-time teachers.

14. **On the expenditure side, the investment budget has been strengthened and nonpriority disbursements will be strictly limited to support economic growth while protecting the fiscal targets of the program.** The government remains committed to limit wage payments within the relevant WAEMU convergence criterion. In addition, to safeguard achievement of the fiscal targets, the authorities intend to reduce nonpriority expenditure to offset any revenue shortfall that may occur during the fiscal year. Total expenditure is expected to reach 21.7 percent of GDP, of which 17.4 percent of GDP is to be financed using own resources. Outlays financed with domestic resources will increase by 12.7 percent in 2007, following a marked reduction in 2006.

15. **Management of capital expenditure will be improved and the government will clear domestic payment arrears identified in 2006.** Learning from the poor execution rate of capital expenditure in 2006, the government has set up administrative directorates within line ministries and at the Ministry of Finance in order to better monitor execution of the development budget. The Ministry of Finance has also taken steps to expedite the establishment of capital budget appropriations. These measures should help the government achieve a more orderly execution of domestically-financed capital outlays, in line with its pro-growth objectives. A recent audit certified CFAF 33 billion in domestic payment arrears to suppliers from FYs 2004 and 2005, which were identified in early 2006. These arrears are being cleared in 2007; including CFAF 10

billion in wage arrears to civil servants, total domestic arrears repayments are projected at CFAF 43 billion (1.6 percent of GDP).

16. **Consistent with the above, a primary budget deficit (narrowly defined, commitment basis, excluding grants) would be avoided and the overall fiscal deficit (commitment basis, excluding grants) would be contained at CFAF 120.9 billion (4.5 percent of GDP).** Taking into account the targeted net reduction in domestic payment arrears and identified net domestic and external financing equivalent to 4.4 percent of GDP,<sup>12</sup> a residual financing gap equivalent to CFAF 44.8 billion (1.7 percent of GDP) remains. The gap is expected to be covered by: (i) CFAF 14.9 billion from the World Bank, (ii) CFAF 7.2 billion from the European Union, (iii) CFAF 12 billion from the African Development Bank, and (iv) CFAF 10.7 billion from bilateral partners.

### C. Money and Credit

17. **Monetary policy is conducted by the BCEAO at the regional level.** The Bank intends to manage bank liquidity in a manner that ensures the provision of an adequate level of credit without weakening the zone's external position. Broad money is projected to increase by about 5 percent in 2007. Credit to the private sector is set to rise about 11 percent, above the rate of increase of nominal GDP. Treasury securities of CFAF 54.2 billion, issued on the sub-regional financial market in January 2007, will be repaid over 2009–12.<sup>13</sup> The annual payments of CFAF 14.8 billion on average will cover both principal and interest. An interest payment of CFAF 3.3 billion will, however, be made in 2008, at the end of accorded one-year grace period.

### D. Balance of Payments and External Debt

18. **The external position is expected to weaken in 2007.** From a surplus of 4.7 percent in 2006, the balance of payments is projected to register a slight overall deficit. This reflects the combined impact of higher imports of capital goods and petroleum products on the back of sustained economic growth and persistently high petroleum prices, and dwindling MDRI financial benefits. The current account deficit, excluding grants, should nevertheless narrow slightly to 6.3 percent in 2007 from 7.1 percent of GDP in 2006 (Table 5).

19. **The external position is expected to remain sustainable in the medium term.** Exports of cotton and various farm, food, and fisheries products are rising, while the performance of the services sector, including tourism, would strengthen.

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<sup>12</sup> Including an expected CFAF 15 billion first tranche receipt for the privatization of SONAPRA.

<sup>13</sup> This issuance was to refinance T-bills and retire short-term bank loans maturing in January, for a total amount of CFAF 36 billion.

International reserves are projected to stand at around 12 months of imports in 2009. As a result of debt relief under the Enhanced HIPC Initiative and the MDRI and cancellation of Chinese and Russian debts, the external debt burden, estimated at 10.5 percent of GDP at end-2006, would remain below 13 percent of GDP in the medium term. The government is committed to pursue a prudent debt management policy and to neither directly contract nor guarantee any nonconcessional loans.

## **E. Structural Policies**

### **Improvement in public expenditure management**

20. **The government is determined to further improve public expenditure management.** Debt relief from the HIPC Initiative and the MDRI has reduced projected annual external debt service payments to 4.4 percent of total expenditure on average for 2007–09. Moreover, the mobilization of domestic revenue is expected to improve. To ensure best use of the resulting fiscal space, the government intends to address weaknesses in its public expenditure management system.

21. **In collaboration with the African and Fiscal Affairs departments of the IMF, the authorities are developing a strategy to improve budget management.** Finalization of this strategy, which has a particular emphasis on expenditure, by March 31, 2008 is a structural benchmark under the program. In the meantime, steps are being taken to restore order to public expenditure management. In this context, Treasury payment orders are now issued only in exceptional circumstances, the use of petty cash funds (*régies d'avances*) is strictly limited, and hitherto deactivated automatic controls in the computerized budget management system (SIGFIP) have been re-established and will remain in force permanently. By end-December 2007, the government will finalize an audit of Benin's computerized expenditure management systems (SIGFIP, ASTER, and WMONEY), which is a structural program benchmark. Implementation of the audit's recommendations is expected to ensure improved monitoring of expenditure commitments and execution.

22. **The study of the government's debt to its permanent employees has been finalized.** The related arrears clearance plan is consistent with the government's decision to maintain annual wage expenditure (including wage debt) at 6.2 percent of GDP on average over the medium term to preserve fiscal sustainability. As a prior for completing the PRGF review, the report on civil wage arrears was communicated to Fund staff on May 8, 2007. The government also intends to intensify preparation of the reform strategy for the National Pension Fund, whose operating deficit, growing by about 0.5 percent of GDP a year, imposes increasing pressure on the national budget. Completion of the strategy by end-December 2007, a structural benchmark under the program, would allow the authorities to implement it in 2008.

## **Privatization Program of the cotton, electricity, and telecommunications sectors**

### **23. Government disengagement from commercial activities in the cotton sector is programmed to be completed by end-November 2007.**

In this context, the authorities are expected to complete a financial assessment of SONAPRA's assets before end-June, with a view to ceding the ginning factories to a new cotton ginning company in November. The majority of the new company's capital is to be held by private sector operators, workers, and other entities active in the cotton industry, with government retaining limited shareholding.

**24. The government has reassessed its divestiture strategy for SBEE.** In collaboration with World Bank staff, the authorities organized a technical workshop in January 2007 on the company's predicament and prospects. Agreement was reached on restructuring SBEE over an 18-month period to address its most urgent technical and financial problems prior to privatization. Under the agreed strategy, government disengagement is to take the form of a lease concession. The government has set out a timetable for the restructuring plan's key measures. Under the latter, the call for expression of interest from potential investors is expected to be issued in January 2009; finalization of the new reform timetable is a prior action for completing the second PRGF review. In this context, the government has put in place a team on secondment from the regional central bank (BCEAO) to improve SBEE's financial, technical and administrative management practices.

**25. The government has also appointed a team to develop a comprehensive reform strategy for the energy sector.** Envisaged reforms would include implementation of an institutional framework that ensures efficient operation of the energy sector and promotes private sector investment in energy generation and transportation, with a view to addressing the ongoing energy crisis and improving economic competitiveness.

**26. The authorities have initiated actions to improve the regulatory framework for the telecommunications sector.** Key measures in recent months include the appointment of an interim regulatory authority (*Le Conseil Transitoire de Régulation des Postes et Télécommunications*), preparation of regulatory texts governing the sector, and creation of management initiatives aimed at improving the financial situation of Bénin Télécoms. A consortium comprising an investment bank, an audit firm, and a law firm has been appointed to assist the government in handling the Bénin Télécoms privatization transaction. In line with an October 2006 timetable, the government is to launch the call for expressions of interest to recruit the strategic partner by January 2009.



## Port Sector Reforms

27. **Reform of Cotonou Port has fallen behind schedule.** Contributing factors include weak technical capacity for the government's consultant and limited local capacity implementation. As a result, introduction of consolidated electronic billing (BFU) of port services, an end-December 2006 performance criterion, was not effected. To accelerate port sector reforms, these have been integrated into the Millennium Challenge Account (MCA) program. In that context, a comprehensive assessment study of the status of customs services, including the one-stop window, has been launched. The study is expected to identify reform measures aimed at achieving efficiency gains in the economic and revenue-raising functions of Benin's Customs, along with a timetable for implementation.

### F. Growth and Poverty-Reduction Strategy Paper (GPRSP)

28. **The government has submitted an updated PRSP (GPRSP, 2007–09) to its development partners.** Drawing on experience from the 2003–05 poverty reduction strategy (PRS), the authorities had given a leading role to civil society and parliament in the preparation of the new PRS. Under the latter, the private sector is crucial to the efforts to promote strong and sustainable growth and fight poverty. The updated PRSP focuses on four priority growth-supporting areas: (i) macroeconomic stabilization; (ii) promotion and development of the private sector; (iii) diversification of the economic base; and (iv) promotion of regional integration. The final version of the GPRSP takes account of development partners' observations on an initial draft of document.

29. **The latest estimates of the poverty profile raise concerns.** A modular, multi-round, survey of household living conditions (EMICOV) has been completed. Preliminary results from the first round suggest an 8-percentage-point increase in poverty between 2002 and 2006. However, survey results based on 'conditions of life' variables point to a modest decline in poverty over the first PRSP period, consistent with the evolution of per capita income and with Benin's substantial reduction in inequality in recent years. The government intends to reassess and clarify the conflicting developments in poverty prevalence indicators.

## IV. PRIOR ACTIONS AND PROGRAM MONITORING

30. **Completion of the second review of the arrangement under the PRGF for Benin depends on two prior actions being implemented:** finalization and transmittal to Fund staff of a study on the government's wage debt to its permanent employees and its submission to Fund staff, and adoption of a revised timetable for the reform of SBEE.

31. **Program monitoring will be based on quarterly structural and quantitative benchmarks and performance criteria (Tables 1 and 2).** The authorities will report the data necessary for program monitoring to the IMF in accordance with the relevant Technical Memorandum of Understanding. During the program period, the government will not (i) introduce restrictions on payments and transfers on current international transactions or tighten any such restrictions without first consulting the Fund, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements not compatible with the provisions of Article VIII of the IMF's Articles of Agreement, or (iv) introduce restrictions on imports for balance of payments purposes.

32. **The third review of the arrangement under the PRGF will take place in mid-November 2007.**

**Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period December 2006–December 2007**  
(In billions of CFA francs)

	EBS 06/146	End-December 2006		Status	End-March 2007		End-June 2007		End-September 2007		End-December 2007	
		Est.	Adjusted		Indicative targets	Program	Performance Criteria	Program	Indicative targets	Program	Performance Criteria	Program
<b>A. Quantitative Performance Criteria and Indicative Targets</b> <sup>1/</sup>												
Net domestic financing of the government <sup>2/ 3/</sup>	-38.0	-49.6	-20.0	met	-8.4	-1.6	5.0	-4.1	5.0	-4.1		
Primary fiscal balance (excluding grants)	-22.2	9.2	-22.2	met	-7.8	12.9	10.7	-0.5	10.7	-0.5		
Accumulation of domestic payments arrears <sup>4/</sup>	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0		
Memorandum Item: Budgetary assistance	50.6	18.1			0.0	4.5	20.3	44.8	20.3	44.8		
<b>B. Continuous quantitative performance criteria</b>												
Accumulation of external payments arrears	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0		
External debt contracted or guaranteed by government with maturities of 0-1 year	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0		
Nonconcessional external contracted or guaranteed with maturities of one year or more	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0		
<b>C. Indicative Targets (Cumulative from December 31, 2005)</b>												
Total revenue	410.4	416.9	410.4	met	97.3	204.2	323.1	459.7	323.1	459.7		
Wage bill	138.1	135.0	138.1	met	36.3	66.0	110.3	145.1	110.3	145.1		

<sup>1/</sup> The targets and performance criteria are cumulative as from end-December of previous year.

<sup>2/</sup> The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast up to a limit of CFA francs 10 and 18 billions at end-September and end-December 2006, respectively.

<sup>3/</sup> If external budgetary assistance exceeds the amount projected in excess of more than CFAF 3 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 3 billion, unless it is used to absorb domestic arrears.

<sup>4/</sup> This performance criterion is monitored on a continuous basis.

<sup>5/</sup> To be set at the third PRGF review.

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

Measures	Date	Status
<b>Prior action for completing the second PRGF review.</b>		
Completing a revised timetable for privatization of the electric power company (SBEE).		Done
Transmittal to Fund staff of the report on government's wage debt to civil servants resulting from past wage freeze (including related settlement plan).		Done
<b>Structural performance criteria</b>		
Effective start of consolidated electronic billing at one-stop window at Cotonou Port.	End-December 2006	Not met; reform incorporated into the MCA-Benin project
Establishment of a privately controlled ginning company to purchase and operate the ginning plants of SONAPRA.	End-June 2007	
<b>Structural benchmarks</b>		
Transmittal to the Audit Chamber of the relevant accounts of the 2004 budget; transmittal to the National Assembly of the settlement laws for the 2003 and 2004 budgets.	End-December 2006	Documents transmitted to Audit Chamber
Completion of a study (and related action plan) updating the customs reform agenda.	End-September 2007	
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	
Implementation of a single taxpayer identification number.	End-December 2007	
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	
Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices.	End-March 2008	
Completion of a strategy to improve public finance management.	End-March 2008	

**ATTACHMENT II—BENIN: TECHNICAL MEMORANDUM OF UNDERSTANDING**

May 22, 2007

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

**I. DEFINITIONS**

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

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

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

the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under this definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b). **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

## II. QUANTITATIVE PERFORMANCE CRITERIA

### A. Ceiling on Net Domestic Financing of the Government

#### Definition

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

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

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

7. The ceiling on the net domestic financing of the government will be adjusted if disbursement of external budgetary assistance (excluding IMF financing and HIPC assistance) net of debt service obligations (excluding IMF repayment obligations) and payments of arrears, exceed or fall short of program forecasts. In the event of disbursement in larger than programmed amounts, the ceiling will be adjusted downward pro tanto by the excess disbursement, unless they are used to absorb domestic arrears. In contrast, if at the end of each quarter disbursements are less than the programmed amounts, the ceiling will be raised pro tanto by the amount of the shortfalls up to the limit (on a noncumulative basis) of CFAF 4.5 billion at end-June 2007, CFAF 10 billion at end-September 2007, and CFAF 18 billion at end-December 2007. The amount of external budgetary assistance provided is calculated from end-March 2007 onward. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) and the Multilateral Debt Relief Initiative (MDRI)).

### **Performance criteria and indicators**

8. The ceiling on net domestic financing of the government is established as follows: CFAF -1.6 billion at end-June 2007, CFAF 5 billion at end-September 2007, and CFAF -4.1 billion at end December 2007. The ceiling is an indicative target as at end-September 2007 and a performance criterion as at end-June 2007 and at end-December 2007.

### **Reporting requirement**

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

## **B. Narrow Primary Fiscal Balance**

### **Definition**

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

### **Performance criterion**

11. The ceiling on the narrow primary fiscal balance is established as follows: a surplus not lower than CFAF 12.9 billion at end-June 2007, a surplus not lower than CFAF 10.7 billion and a surplus not lower than CFAF 0.9 billion at end December 2007. The ceiling is an indicative target as at end-September 2007 and a performance criterion as at end-June and at end-December 2007.

### **Reporting requirement**

12. Provisional data on the narrow primary fiscal balance, including the data generated by the computerized budget management system (SIGFIP), will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

### **C. Accumulation of New Domestic Payments Arrears on Government Obligations**

#### **Definition**

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

#### **Performance criterion**

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

### **Reporting requirement**

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

### **D. Nonaccumulation of External Public Payments Arrears**

#### **Definition**

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

#### **Performance criterion**

17. Under the program, the government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The



performance criterion on the nonaccumulation of external public payments arrears will be monitored on a continuous basis throughout the program period.

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

#### **Definition**

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

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

#### **Performance criterion**

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

#### **Reporting requirement**

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

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

#### **Definition**

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

23. Short-term external debt is debt with a contractual term of less than one year. Import-related loans and debt-relief operations are excluded from this performance criterion.

#### **Performance criterion**

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

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

## **II. QUANTITATIVE INDICATORS**

### **A. Floor on Government's Revenues**

#### **Definition**

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

#### **Indicative targets**

27. Indicative targets for total government revenues are set at CFAF 204 billion at end-June 2007, CFAF 323 billion at end-September 2007, and CFAF 461 billion at end-December 2007 (cumulative since end-December 2006).

#### **Reporting requirement**

28. The government shall report its revenues to IMF staff each month in the context of the TOFE and before the end of the following month.

### **B. Ceiling on the Wage Bill**

#### **Definition**

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

#### **Indicative targets**

30. The quantitative benchmarks are defined as cumulative amounts after end-December 2006. The civil servant wage bill quarterly ceilings are CFAF 66 billion at end-June 2007, CFAF 110.3 billion at end-September 2007, and CFAF 145.1 billion at end-December 2007 (Staff report, Table 3 and MEFP, Table 1).

#### **Reporting requirement**

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

#### **IV. PRIOR ACTIONS FOR COMPLETION OF THE SECOND REVIEW**

32. The authorities will have taken the following actions prior to the completion of the second PRGF review:

- Adoption of a revised timetable for the reform of the electric power company (SBEE);
- Transmittal to Fund staff of the report on government's wage debt to civil servants resulting from past wage freeze (including related settlement plan).

#### **V. STRUCTURAL PERFORMANCE CRITERIA**

33. The following action is set as performance criteria :

- Establishment of a privately controlled ginning company to purchase and operate the ginning plants of SONAPRA

#### **VI. STRUCTURAL BENCHMARKS**

34. The government will complete the following actions:

- Completion of a study (and related action plan) updating the customs reform agenda;
- Audits of public finance information management systems (SIGFIP, ASTER and WMONEY) ;
- Implementation of a single taxpayer identification number ;
- Completion of a strategy for reform of the civil service pension fund (FNRB) ;
- Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices ;
- Completion of a strategy to improve public finance management.

#### **VII. OTHER DATA REQUIREMENTS FOR PROGRAM MONITORING**

##### **C. Public Finance**

35. The government will provide to the Fund the following:

- detailed monthly revenue and expenditure estimates, including social expenditures, payments on arrears, and HIPC Initiative-related expenditure;
- monthly data on domestic financing (bank and nonbank) of the budget (including government bonds held by the nonbank public), which will be transmitted on a monthly basis within four weeks of the end of each month;
- data on the implementation of the development budget, with detailed information on the sources of financing, which will be transmitted on a quarterly basis within 4 weeks of the end of each quarter.

#### **D. Monetary Sector**

36. The government will provide to the Fund the following data on a monthly basis within eight weeks of the end of the month:

- the consolidated balance sheets of deposit money banks, and the individual bank balance sheet, as needed;
- the monetary survey;
- lending and deposit rates;
- the standard bank supervision indicators for banks, as well as those for nonbank financial institutions and for individual institutions, as needed.

#### **E. External Sector**

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

- Export and import price and volume data;
- Other balance of payments data, including data on services, private transfers, official transfers, and capital account transactions.

#### **F. Real Sector**

38. The government will provide to the Fund:

- Monthly disaggregated consumer price indices will be transmitted on a monthly basis within two weeks of the end of each month;
- Any revisions to the national accounts data will be transmitted within eight weeks of the date of revision.

### **G. Structural Reforms and Other Data Requirements**

39. The government will provide to the Fund:
- Documentation of all decisions, laws, decrees, orders, and circulars undertaken by the government pertaining to the economy of Benin will be submitted within ten days of publication;
  - All studies and research papers related to the economy of Benin will be submitted within two weeks of publication.

INTERNATIONAL MONETARY FUND

BENIN

**Second Review Under the Three-Year Arrangement Under the Poverty Reduction and  
Growth Facility and Request for Waiver of a Performance Criterion  
Informational Annex**

Prepared by the African Department

May 23, 2007

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**I. RELATIONS WITH THE FUND**  
(As of April 30, 2007)

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

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

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	9.41	100.00
Holdings	0.12	1.28

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
PRGF Arrangements	1.76	2.84

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Aug 05, 2005	Aug 04, 2008	6.19	1.76
PRGF	Jul 17, 2000	Mar 31, 2004	27.00	27.00
PRGF	Aug 28, 1996	Jul 16, 2000	27.18	16.31

**VI. Projected Payments to Fund; (with Board-approved HIPC Assistance)**  
(SDR Million; based on existing use of resources and present holdings of SDRs):

	2007	<u>Forthcoming</u>			
		2008	2009	2010	2011
Principal					0.18
Charges/Interest	0.30	0.40	0.40	0.40	0.40
Total	0.30	0.40	0.40	0.40	0.58

**VII. Implementation of HIPC Initiative:**

I. Commitment of HIPC assistance	<u>Enhanced Framework</u>
Decision point date	Jul 2000
Assistance committed	
By all creditors (US\$ Million) <sup>1</sup>	265.00
Of which: IMF assistance (US\$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	Mar 2003

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

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

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

### VIII. Implementation of MDRI Assistance:

I. Total Debt Relief (SDR Million) <sup>1</sup>	36.06
Of Which: MDRI	34.11
HIPC	1.95
II. Debt Relief by Facility (SDR Million)	

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

<sup>1</sup>The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

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

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

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



**IX. Safeguards Assessments:**

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Benin. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicates that progress has been made in strengthening the bank's safeguards framework since the 2002 safeguards assessment.

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

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function. The status report of the implementation of recommendations, received from the bank in March 2007, indicates that some progress has been achieved.

**X. Exchange Arrangement:**

Benin is a member of the West African Economic and Monetary Union (WAEMU). The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued, and the new parity set at CFAF 1 = F 0.01. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of EUR 1 = CFAF 655.957. As of end December 2005, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 794.72.

**XI. Article IV Consultations:**

The last Article IV consultation discussions were held in Cotonou during August 9–23, 2006. The staff report (EBS/06/146; 11/13/06) and selected issues paper were discussed by the Executive Board, and the 2006 Article IV consultation concluded, on November 27, 2006.

**XII. ROSC Assessment:**

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be taken quickly to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report 02/217).

### **XIII. Technical Assistance:**

<b>Department</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Purpose</b>
FAD	Resident expert	September 1989-September 1994	Advising Minister of Finance on tax reform
FAD	Resident expert	November 1990-November 1992	Advising Minister of Finance on budgetary procedures
STA	Technical assistance	February 4-17, 1998	Formulating a strategy to improve statistical organization and management of the Central Bank of West African States.
FAD	Technical assistance	September 7-22, 1998	Advising Minister of Finance on tax administration.
STA	Technical assistance	April 17-28, 2000	Devising new questionnaires for balance of payments statistics and reactivating the banking settlements reporting system.
FAD	Technical assistance	April 25-May 5, 2000	Advising Minister of Finance on tax administration
STA	Technical assistance	May 7-11, 2000	Improving the collection, compilation, and dissemination of data on monetary and financial statistics
FAD	Technical assistance	May 16-29, 2001	Preparing a fiscal transparency module of a ROSC and assessment of capacity to monitor HIPC Initiative resources.

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

#### **XIV. Resident Representative:**

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

## II. RELATIONS WITH THE WORLD BANK GROUP

### Partnership in Benin's development strategy

1. Benin's poverty reduction strategy paper (PRSP), finalized in December 2002, was discussed at the Bank and Fund Boards in March 2003. The PRSP provides a framework for aligning donor assistance programs, including those of the Bank and the Fund, with the country's poverty reduction efforts. Benin is now planning to prepare its second PRSP.
2. The IMF has taken the lead in helping Benin maintain macroeconomic stability. In that context, the three-year Poverty Reduction and Growth Facility (PRGF) arrangement, which was approved in July 2005, addresses issues related to fiscal consolidation and structural reforms that are key to maintaining macroeconomic stability and fostering growth. The PRGF's structural conditionality focused on the following areas: public expenditure management, tax policy and administration, civil service reform, and the privatization program.
3. Public expenditure management reform has been an important focus of the Bank's assistance program. In close collaboration with the Fund and other donors, the Bank has provided technical and financial assistance to the government's reform efforts in this area. The Bank has also been in the lead in helping Benin strengthen the provision of basic social services, most importantly in the education and health sectors, pursuing a divestiture program in the utility and infrastructure sectors, and enhancing the competitiveness of the cotton sector.

### IMF-World Bank collaboration in specific areas

4. Common objectives and joint support for Benin's PRSP and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) processes have increased collaboration between the Fund and Bank in recent years. The Bank and Fund teams are closely coordinating their policy advice to the authorities. There is also close coordination in the determination of structural conditionality
5. In general, the Bank is leading the policy dialogue on key structural aspects of the reform program, with a strong focus on public expenditure management. The Fund is in the lead in the policy dialogue on macroeconomic issues, particularly fiscal elements of the reform.

### *Areas in which the Bank leads*

6. **Divestiture program and private sector development.** The Bank has supported Benin's program for the divestiture of public enterprises **through different projects**. The remaining enterprises to be privatized include the cotton parastatal, SONAPRA, and most public utilities: the telecommunications company (OPT), the water and electricity

distribution company (SBEE), and the Autonomous Port of Cotonou (PAC). Assistance for the privatization of the OPT and **for improving the Cotonou port operations** is provided through the Private Sector Development Project. The Bank supports the privatization of the electricity branch of the SBEE through the Energy Services Delivery Project which was approved by the Bank's Board on July 6, 2004. Successful completion of this privatization is a condition for moving to the second phase of this project. The privatization of SONAPRA's ginning mills is supported by the Cotton Sector Project. **The now closed** Transportation Sector Project assisted the government in designing a strategy to involve the private sector in the management of the PAC. The Fund is involved in policy dialogue on these operations, given the importance of the divestiture program to macroeconomic stability and growth.

7. **Service delivery reforms.** Improving access to basic social services is one of the four main strategic pillars of Benin's PRSP, and the health and basic education sectors are among the priority sectors that have received increased budget allocations in the medium term expenditure framework (MTEF). The Bank supported reform programs in these sectors through investment projects that were closed in the past three years. In line with the CAS discussed at the Bank's Board on July 3, 2003, the Bank is continuing to work closely with the government on enhancing access to, and quality of, education and health care services through policy dialogue and financial and technical assistance in the context of the Poverty Reduction Support Credits (PRSCs). A number of key policy measures in these two sectors have been implemented as conditions for reaching in March 2003 the enhanced HIPC Initiative completion point, and the first and second PRSCs which were presented to the Bank's Board in March 2004 and June 2005, respectively. The Bank is also playing a lead role in support of a multisector response to the HIV/AIDS pandemic, based on the government's comprehensive strategic framework covering 2000-05, adopted in December 2000. A follow-up project is under preparation for FY07 Board presentation.

8. **Poverty monitoring.** The PRSP presents an action plan to establish a reliable database for measuring income poverty in 2003 using a revised methodology. The Bank is providing technical support for the implementation of this action plan and for other efforts aimed at understanding the determinants of poverty in Benin. These include the poverty and social impact analysis (PSIA) of cotton sector reform, which was prepared by IDA in collaboration with the government, and the Poverty Assessment (PA), which was released in June 2004.

9. The Poverty Assessment was disseminated in conjunction with the PRSP in December 2004 with the assistance of the Bank. The Bank is also advising the authorities, in the context of the implementation of the PRSP, on strengthening institutional arrangements for monitoring and evaluating poverty in the country.

10. **Cotton sector reforms.** Cotton is Benin's only major cash crop, and the sector has accounted in recent years for around 80 percent of its export earnings. The cotton sector is a key focus of the Bank's assistance program. A comprehensive reform of this sector, aimed at

liberalizing and strengthening the capacity of producers has been undertaken since the early 1990s, with the support of the Bank and bilateral donors. Important progress has been achieved so far, such as by eliminating the monopsony of the state enterprise (SONAPRA) in cotton marketing, liberalizing input supply, and opening the sector to private ginners. In 2002, the Bank Board approved a Cotton Sector Reform Project, which is supporting the consolidation of the reforms. The Bank is also helping the government to define the regulatory framework for the sector which was adopted at end 2004.

*Areas in which the Bank and Fund share the lead*

11. **Public expenditure management reform.** Through its Public Expenditure Reform Adjustment Credit (PERAC) and related Supplemental Credit (now both closed), the Bank played a lead role in assisting the authorities in putting in place a framework for a thorough public expenditure management reform, which was launched in 2001. The PERAC aimed at enhancing the effectiveness and poverty focus of public expenditure. As shown in the 2004 PER, the reform has achieved good progress so far, such as the finalization of an MTEF on the basis of the PRSP, the completion of a performance-based budget cycle, an effective delegation of spending authority to line ministries, and an introduction of a computerized budget implementation system, as well as in the area of reporting on and auditing government accounts. The Fund supported these reform efforts through a number of financial and structural benchmarks in the PRGF management.

12. **Fiscal policy and fiduciary framework.** Fiscal consolidation was a key objective of the Fund-supported PRGF arrangement. The Bank is focusing on inter- and intrasector allocations, in particular in the priority sectors covered by the PERAC and the future PRSCs (education, health, water and sanitation, transportation, agriculture, forestry and environment). These priority sectors have represented about 55 percent of total expenditure, excluding debt service, in recent years. In addition, the Bank is helping to strengthen Benin's fiduciary framework through analytical and advisory activities (AAA), such as forthcoming update of the Country Procurement Assessment Report (CPAR), the Country Financial Accountability Assessment (CFAA), and the governance and anti-corruption survey. The PRSC-2 supports a comprehensive action plan for public procurement reform that addresses main weaknesses identified in the 1999 CPAR.

13. **Poverty reduction strategy.** Together with other external development partners, the Bank and Fund have jointly provided assistance to the government in the preparation of Benin's PRSP. The PRSP was discussed at Bank and Fund Boards in March 2003, together with a joint staff assessment prepared by Bank and Fund staffs. Both institutions will continue to jointly advise the authorities on the refinement, implementation, monitoring, and evaluation of the strategy. Bank and Fund staffs also helped the government finalize its second annual progress report of the poverty reduction strategy, formally transmitted in April 2005 and circulated to the Bank and Fund Boards in June 2005. The Bank supported the government to prepare a detailed action plan for the dissemination of the PRSP. The

consultation program is designed to reach key line ministries within the government, the National Assembly as well as the civil society and the private sector. (announce the upcoming PRSP).

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

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

16. **Financial sector policy.** The Fund has supported the government's efforts to strengthen Benin's financial sector. These efforts have focused on ensuring that banks meet the Regional Banking Commission's prudential ratios. The reform of the financial sector also includes the divestiture of the state-owned Continental Bank and the rehabilitation of microfinance institutions. As part of the Private Sector Development Project, the Bank has been providing support to two major microfinance institutions. A financial sector review was completed and the report was released in July 2004.

*Areas in which the Fund leads*

17. **Macroeconomic stability.** The medium-term objective of Benin's macroeconomic program is to achieve strong economic growth and reduce poverty, while maintaining financial stability. The Fund has been supporting this program through its dialogue on macroeconomic policy, technical assistance, and the PRGF framework.

18. **Tax and custom administration reforms.** To enhance Benin's fiscal revenues, the Fund has provided technical assistance to help the authorities prepare and update action plans aimed at improving the performance of the tax and customs administrations as well as broadening the tax base.

## World Bank strategy

19. **The overriding objective of the current Bank's Country Assistance Strategy (CAS)** discussed at its Board on July 3, 2003 is to help Benin reverse the recent trends of limited or no poverty reduction amid relatively robust growth. Progress in reducing poverty and attaining the Millennium Development Goals (MDGs) requires further deepening of cotton sector reforms, strengthening efforts toward diversifying the economy, making tangible progress in the social sectors, building effective and responsive public institutions, promoting gender equality, and strengthening collaboration with the private sector and civil society. The CAS describes a program of financial assistance and nonlending services as the Bank's contribution to addressing these challenges. It supports the implementation and further refinement of the PRSP, and it is aligned to the four PRSP pillars.<sup>1</sup> **A new CAS is scheduled to be prepared in 2008 once the Government has finalized its PRSC.**

20. The CAS enforces the gradual shift of the Bank's lending program toward programmatic lending, as initiated under the interim CAS (I-CAS) approved in January 2001 and in response to the PRSP's explicit invitation to donors to do more in that area. Building on the PERAC, the Bank expects this shift to enhance the development impact of its assistance to Benin by fostering national leadership of development programs. It has also facilitated donor coordination around Benin's PRSP. This will require, however, a continued strong commitment to advance public sector management reforms aimed at increasing efficiency in the use of public resources. To address these transitional challenges, the Bank will continue its support of Benin's public expenditure reform through financial and technical support. Annual single-tranche PRSCs are envisaged to remain a key vehicle for Bank support to the country. A first PRSC was presented to the Bank's Board in March 2004, and the second PRSC, presented to the Bank's Board in June 2005, will continue to support the PRSP pillars, with components on macroeconomic stability, service delivery, and governance.

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



Benin: Status of World Bank Portfolio  
(In millions of U.S. dollars, as of June 28, 2006)

	Effectiveness Date	Original Principal (IDA)	Undisbursed (IDA)
Private Sector	8/31/00	30.4	5.6
Cotton Sector Reform	9/12/02	18.0	8.8
HIV/AIDS Multisector	7/17/02	23.0	1.4
Energy Service Delivery	4/25/05	45.0	43.0
National CDD	5/2/05	50.0	44.6
2 <sup>nd</sup> Decentralized Cities	3/8/06	35.0	33.1
Malaria	Not yet effective	31.0	32.3
Total		232.4	168.8

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

22. As of **June 28, 2006**, the Bank lending portfolio consisted of seven operations, with a net commitment of US\$232.4 million and an undisbursed balance of US\$**168.8** million (see table above). The CAS has a determined lending volume for the period FY04 - FY06 amounting to US\$200 million. As discussed previously, a large part of IDA financing (US\$85 million) has been channeled through PRSCs. As indicated in the CAS, a key objective of the Bank's nonlending program is to help the government strengthen its sector-wide expenditure programs as a basis for consolidating programmatic support and building the capacity required for preparing, implementing, and monitoring these programs.

Prepared by World Bank Staff. Questions may be asked to **Mr. Nils O. Tcheyan**, Acting Country Director for Benin, ext. 38445; or Ms. Nancy Benjamin, Country Economist for Benin, ext. 30189.

### III. STATISTICAL ISSUES (As of end-April 2007)

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

#### **Real sector statistics**

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

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

#### **Government finance statistics**

4. Monthly government finance statistics are compiled by the Ministry of Finance with a one- to three-month lag, based on information provided by the budget, customs, tax, and treasury directorates. The Ministry of Finance prepares a monthly reconciliation of spending commitments made by the budget directorate and payments made by the treasury. However, no final budget or treasury accounts are published at the end of the fiscal year. Recently, Benin provided 2005 data for publication in the *Government Finance Statistics Yearbook (GFSY)*. No data are reported for publication in *International Financial Statistics (IFS)*.

### **Monetary and financial statistics**

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

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

7. In August 2006, as part of the authorities' efforts to implement the *MFSM's* methodology, the BCEAO reported to STA monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). These data were reviewed in STA and comments were provided to the authorities. However, no response from the authorities has been received thus far.

### **Balance of payments**

8. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO by area-wide legislation adopted by the countries participating in the WAEMU. The national agency of the BCEAO in Cotonou is responsible for compiling and disseminating Benin's balance of payments statistics, and the BCEAO headquarters in Dakar for delineating the methodology and calculating the international reserves managed on behalf of the participating countries.

9. Data consistency has significantly improved over the past few years, with a full transition to the *Balance of Payments Manual, Fifth Edition (BPM5)*. The BCEAO national agency typically disseminates balance of payments statistics with a more than one year lag,

exceeding GDDS guidelines. The BCEAO also compiles and disseminates the annual data of the international investment position data with an 18-month lag.

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

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

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

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

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

**Poverty data**

14. Major methodological weaknesses remain regarding poverty data. In particular, the methodology used in the household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of Benin into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities are implementing an action plan to address these methodological issues. The authorities have completed a modular survey of household living conditions to update the poverty profile in the context of the preparation of the second PRSP.

**External debt**

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

**Benin: Table of Common Indicators Required for Surveillance**  
(As of April 30, 2007)

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

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).



Press Release No. 07/127  
FOR IMMEDIATE RELEASE  
June 11, 2007

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Second Review Under the PRGF Arrangement with Benin and Approves US\$1.3 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Benin's economic performance under an SDR 6.19 million (about US\$9.3 million) Poverty Reduction and Growth Facility (PRGF)<sup>1</sup> arrangement (see [Press Release No.05/190](#)), and approved the disbursement of an amount equivalent to SDR 0.88 million (about US\$1.3 million).

The Board also approved Benin's request for a waiver pertaining to the non-observance of the structural performance criterion on port reform.

Benin reached the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in March 2003, receiving total debt relief of about US\$265 million in net present value terms, including US\$24.3 million (SDR 18.4 million) from the IMF. In January 2006, Benin received US\$52.1 million (SDR 36.1 million) in debt relief from the IMF under the Multilateral Debt Relief Initiative (MDRI).

Following the Executive Board's discussion of Benin, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

“Benin's macroeconomic situation continues to improve. The budgetary situation and medium-term fiscal prospects are better as a result of fiscal measures being taken and debt relief under the MDRI. A rebound in cotton output is helping to strengthen real GDP growth.

“The macroeconomic program remains on track. Progress in implementing the structural reform agenda has been slower than expected. However, consistent with their revised structural reform timetable, the authorities intend to forge ahead with long-stalled state disengagement from commercial activities in the cotton, telecommunications and energy

sectors and with improvements in the port of Cotonou. These reforms are critical to lower production costs, enhancing Benin's competitiveness, and to attract private investment to diversify Benin's production and export base.

"The authorities are committed to expanding the fiscal space for growth-enhancing and poverty-reducing spending. To do so while underpinning debt sustainability, the authorities are seeking to enhance revenue mobilization through improved tax and customs administration. They also plan to implement a medium-term public expenditure management strategy, based on the recommendations of the forthcoming audit of the public finance information systems. Equally important, a strategy for reform of the civil service pension fund is to be completed by end-2007, with the aim of reigning in the fund's deficit. To help preserve debt sustainability, external assistance will need to be sought on highly concessional terms.

"Challenges in the fiscal and structural areas are to be tackled within the framework of the country's Growth Strategy for Poverty Reduction (GSPR). The GSPR provides a good base for implementing the government's growth and poverty reduction strategy. It would be important to continue to strengthen the poverty evaluation framework, develop well-sequenced goals and strategies, and broaden participation and ownership of the strategy," Mr. Portugal said.

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<sup>1</sup> The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.



**Statement by Laurean W. Rutayisire, Executive Director Benin**  
**June 11, 2007**

On behalf of my authorities, I would like to thank the Executive Board, Management and Staff for their constant support to Benin. My authorities are particularly grateful to staff for its valuable policy advice over the past years and also for the fruitful discussions held during their recent visit to Cotonou.

In line with the great expectations associated with the 2006 presidential elections that confirmed the momentum of peaceful democratic transition in Benin, the new government set as its motto to make the country an emerging economy. To achieve this goal, my authorities have engaged in a comprehensive reform agenda on various fronts, including public finance, public enterprises, governance, and business climate. They have also tackled a number of major impediments to growth, such as the recurrent energy shortage.

Still, my authorities are fully aware of the important challenges on the path to build a broad-based economy, less reliant on cotton, and benefiting from all its comparative advantages stemming from its strategic location within the West African region. Accordingly, under the PRGF program, they are taking action to boost the pace of structural reforms – they have established 2007 as year of acceleration of reforms -, to improve dialogue with the private sector, and to fill the country's gap in basic infrastructures. On the external front, the government is strengthening partnerships with neighboring countries and with donors as well.

The recent political development in Benin has been momentous in regard with its potential impact on economic reforms and the implementation of the development agenda of the government. Indeed, the majority of seats won by the president and his allies in the National Assembly in the late March's elections is an important asset in implementing the more than needed structural reforms my authorities are committed to.

In view of the overall satisfactory program performance and the commitments made for the period ahead, I request, on behalf of my Beninese authorities, the Board's support for the completion of the second review under the PRGF, and for waiver of a performance criterion on effective start of consolidated electronic billing at one-stop window at Cotonou Port. The government is having a close eye on the implementation of this structural criterion that has been incorporated into the MCA-Benin project agenda. Overall, my authorities are grateful and continue to count on the support of the international community to accompany their efforts in building a strong economy, capable of reducing poverty.

## **Recent Economic Developments**

With a **4.1 percentage points of GDP growth** in 2006, the Beninese economy rebounded from the downward trend it faced since 2000. This encouraging achievement, albeit lower than expected, is explained by a resumption of the cotton production that rose from 190.8 thousands of tons in 2005 to 285.0 thousands of tons in 2006. **Inflation** was contained at 3.8 percent, though higher than the WAEMU average, as a result of an excess demand on food – stemming from regional shortages – paired with oil price.

Progress has also been made on the external front. Foreign exchange reserves cover 14.7 months of imports. The current account deficit eased at 7.1 percent of GDP, compared to 7.9 in 2004. Authorities are commendable for their actions to keep imports under control, preventing the current account deficit to widen further.

As regards public finance, the authorities have continued to pursue **fiscal consolidation** in 2006. The national accounts featured a 9 percent increase in revenue to reach 16.8 percent of GDP. This achievement reflects the authorities' efforts to improve governance within the fiscal administration. In particular, a number of reforms related to customs revenue collection, including the use of computer technology, efforts to improve import valuation, stepped-up efforts to streamline customs clearance procedures and improved tracking of exemptions have contributed significantly to the fiscal surplus.

On the expenditure side, the government took steps to correct the slippages recorded in the first quarter of 2006. These measures resulted in a contraction of total expenditure at 19.3 percent of GDP, compared to 21.5 percent programmed. Especially, investment spending was only 57 percent of its planned amount. After restoring fiscal discipline, the authorities are aware of the need to boost public investment spending, in order to meet their growth objectives for the coming years.

## **Policy Agenda for 2007 and Structural Reforms**

The year 2007 is a turning point in the medium-term development agenda of the Beninese authorities. They intend to further the structural reforms, in order to upgrade all the sources of competitiveness of the economy. To this effect, Benin authorities will continue to enhance fiscal consolidation, strengthen public investment, combat corruption, and improve the business climate. In line with these reforms, and assuming a more performing cotton sector and an improvement in energy supply, economic growth is expected to reach 4.5 percent in 2007.

## **Fiscal Policy**

The authorities are committed to further fiscal consolidation successfully engaged in 2006. In particular, they plan to monitor closely the expenditure-control measures, as they did for revenue-enhancing measures in 2006. In view of the fiscal space stemming from MDRI relief and higher domestic revenues, the authorities and staff agreed on a fully-financed budget, which emphasizes investment. The overall fiscal deficit is set at 4.5 percent of GDP.

The array of measures designed to reinforce the performance of the tax and customs administrations are on the right track, if we consider the end-March 2007 data that feature total revenue largely exceeding the program projections. My authorities will keep this encouraging trend to ensure that the end of year expectations - total revenue increasing by ½ percent of GDP and domestically-funded expenditure increasing by ¾ percent of GDP - will be met.

## **Monetary Policy and Financial Sector Issues**

The monetary policy conducted by the regional central bank BCEAO has served Benin well. Furthermore, the current concern of the central bank to manage bank liquidity in a manner to ensure adequate level of credit comfort my authorities in their goal of relying on a strong private sector. They are confident that the projected 11 percent rise in the credit to the private sector will help finance activities with high growth potential. On the other hand, the treasury securities issued by the government in January 2007 is a clear signal of my authorities' aim to raise the public awareness on modern channels of financing.

My authorities count on a sound banking system capable of financing the economy. At year-end 2006, 60 percent of the banks' portfolio was constituted by the biggest companies of the country including the state-owned enterprises. The overall critical situation of those companies has increased the proportion of bad loans within banks. The government expects that the ongoing restructuring of parastatals as well as the economic rebound started in 2006 will contribute to improve banks' assets. Likewise, the shares of industrial and agricultural activities in bank loans – 16 and 1.4 percent respectively, the rest going to commerce activities – may rise significantly.

## **Structural Reforms**

The implementation of structural reforms is broadly proceeding, albeit minor delays were recorded, reflecting the need for the authorities to set the right pace and sequencing of measures. The major sectors and the awaited reforms concern the disengagement of the government from the commercial activities of the cotton sector, the privatization of both the electricity and the telecommunications parastatals – *SBEE* and *Bénin Telecoms* respectively.

In the first quarter of 2007, the government has broadly taken actions to set a good basis for the transformation of these sectors.

Thus, in the cotton field, the government has launched a financial assessment of the industrial assets of SONAPRA - the state-owned company to be replaced by a new and private one. The process scheduled to be completed by end of June should lead to a more efficient sector, with producers better served in raw materials and capital goods, and holding shares in the new company.

As for electricity, based on the conclusions of an audit of the sector, the authorities decided to reorient their privatization strategy of the SBEE. A participatory process effectively began in January 2007 by a workshop involving the employees of the company and the World Bank. The agreed new timetable set an 18-month period of restructuring SBEE, and January 2009 for the call for expression of interest from potential investors. Beyond the need to have a viable company delivering electricity, my authorities are deeply concerned about finding sustainable solutions to the energy problems facing the country and jeopardizing its competitiveness and growth prospects. After obtaining additional energy power supplies from neighboring Nigeria, they have engaged in negotiations with this country to build a gas pipeline that will generate more energy at lower cost.

Related to telecommunications, the timetable set by the government in December 2006 is proceeding. As it was for electricity, the strategy is to restructure the sector before privatizing Bénin Telecoms. To that purpose, the government appointed an interim regulatory authority – *Le Conseil Transitoire de Régulation des Postes et Télécommunications* – to prepare the regulatory framework of the sector. A number of bodies, including the World Bank, are assisting the authorities in conducting the process, which should lead to the recruitment of a strategic partner by January 2009.

### **Good Governance and Business Climate**

Good governance is at the heart of the economic reforms of the Beninese authorities. It is a cross-cutting issue that concerns the public service and the private sector as well. My authorities are fully aware of the need to improve transparency and accountability, in order to gain popular support for their reforms. Likewise and given its negative impact on growth, the authorities intend to combat corruption that distracts revenues and generates undue fees for investors. To identify the main obstacles facing the private sector and conduct subsequent reforms, the government has created a committee comprising both parties. This public-private dialogue has put forward a number of issues and proposed solutions including: (i) fighting vigorously against corruption; (ii) improving the judicial system; (iii) lowering production costs; (iv) designing development enhancing tax policies and; (iv) strengthening the public service.

The private sector organizations have commended the authorities for taking the initiative and for the quality of the dialogue. The authorities are committed to implement the identified measures that will remove a number of impediments to growth.

### **GPRSP**

After implementing a first PRSP, my authorities have issued the second one for the period 2007/09, labeled *Stratégie de Croissance pour la Réduction de la Pauvreté* (SCRP) or Growth and Poverty Reduction Strategy (GPRSP). The SCRP identifies the constraints, the challenges to macroeconomic stability and the government's strategic priorities for a private sector led growth. After being submitted to donors at end-April 2007, my authorities look forward to cooperating with all partners in the implementation of this strategy whose key objective is to transform Benin into an emerging market.

### **Conclusion**

With commendable achievements, my authorities have once again demonstrated their commitment to policies and reforms defined in the PRGF-supported program. Though the initial steps taken in 2006 have started to bear fruit through an economic growth rebound, some of the actions will take some time to yield full results. But, my authorities are committed to pursue their endeavors, accelerate the pace of reforms to transform the Beninese economy. In view of this renewed commitment for the period ahead, the noticeable macroeconomic performance, the overall satisfactory implementation of the reform agenda as assessed by staff, I will appreciate the Board's support for the completion of the second review under the PRGF for Benin.