

## **Benin: Ex Post Assessment of Longer-Term Program Engagement—An Update**

This update on the Ex Post Assessment of Longer-Term Program Engagement for Benin was prepared by a staff team of the International Monetary Fund based on the information available at the time it was completed on December 21, 2010. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Benin or the Executive Board of the IMF.

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**International Monetary Fund**  
**Washington, D.C.**

INTERNATIONAL MONETARY FUND

BENIN

**Ex Post Assessment Update of Longer-Term Program Engagement**

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Approved by the African and Strategy, Policy and Review Departments

December 21, 2010

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**ACRONYMS**

CEN-SAD	Community of Sahel-Saharan States
CFA	African Financial Community
ECF	Extended Credit Facility
ECOWAS	Economic Community Of West African States
EPA	Ex Post Assessment
ESAF	Enhanced Structural Adjustment Facility
FCFA	CFA Franc
HIPC	Heavily Indebted Poor Country
LIC	Low-Income Country
MDRI	Multilateral Debt Relief Initiative
OPs	Ordres de Paiement au Trésor
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SSA	Sub-Saharan African
TMU	Technical Memorandum of Understanding
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

### Main Messages

- *This ex post assessment (EPA) reviews Benin's economic performance since late 2004, focusing on the implementation of the 2005–09 PRGF-supported program.*
- *The main recommendations from the 2004 EPA were adequately incorporated into the following program. The program's objectives, design and flexibility were appropriate, and risks were correctly identified.*
- *Overall, Benin maintained macro-stability over the period, despite a challenging environment.*
- *While growth accelerated until 2008, performance fell short of its historical average, growth in peer countries, and expectations under the program and the authorities' PRSP, notably because of the slow implementation of structural reforms.*
- *Fiscal performance was strong until 2008 and, with MDRI (Multilateral Debt Relief Initiative) debt relief, helped achieve long-term fiscal sustainability. However, the fiscal situation deteriorated significantly from mid-2008, reflecting revenue shortfall and spending overruns.*
- *Going forward, the authorities' strong commitment to fiscal discipline and the structural reform agenda remain key to a successful engagement with the Fund.*

## I. INTRODUCTION

1. **Benin, a member of the CFA franc zone, has experienced uneven economic progress over the last several decades.** Efforts to establish macroeconomic stability were successful, but progress in boosting growth and reducing poverty was uneven. The peg to the euro and the membership in the West African Economic and Monetary Union (WAEMU), the level at which monetary and trade policies are conducted, leave Benin with only fiscal and structural policies as the main tools to manage an economy highly reliant on agriculture and trade with Nigeria.

2. **Benin has a long history of engagement with the Fund.** Since 1993, the country has almost continuously had a program with the Fund under its concessional lending facilities. It entered into five arrangements under the ESAF, PRGF, and ECF (1993–96, 1996–99, 2000–04, 2005–09, and 2010–13). With the exception of the 1996–99 ESAF, all past arrangements were completed with the full amount drawn. Benin achieved the completion point under the HIPC Initiative in March 2003 and benefitted from full

cancellation of its IMF, World Bank and African Development Fund debts under the MDRI in January 2006.

3. **This ex post assessment update covers primarily the implementation of the program supported by the 2005–09 PRGF arrangement.** The arrangement, which was originally to expire in August 2008, was extended at the time of the third review to August 2009. The initial access of SDR 6 million (10 percent of quota) was augmented at the time of the fourth and sixth reviews, to help mitigate the impact of the food and fuel and the global financial crises, respectively. Total access thus reached SDR 25 million (40 percent of quota), and was fully disbursed.

4. **This EPA focuses on three key issues.** It assesses: (i) to what extent the lessons from the previous EPA were reflected in the following program; (ii) the overall macro-performance over the period; and (iii) the fiscal performance. Finally, it draws conclusions to inform future engagement with the Fund.<sup>2</sup>

## II. LEARNING FROM THE PREVIOUS EPA

### A. Main Conclusions of the 2004 EPA

5. **The previous EPA, covering 1993–2004, concluded that past program design had been broadly appropriate and implementation mostly successful.** Overall, program engagement contributed to major progress in macroeconomic stabilization and fiscal consolidation. However, public expenditure management had remained weak and, overall, the weaknesses in the authorities' administration and implementation capacity had been underestimated. The mixed results in the implementation of the structural reform agenda called into question the extent of program ownership.

6. **Looking ahead, the 2004 EPA proposed to build on previous reforms to support growth and reduce poverty, while preserving macroeconomic stability.** It recommended that a successor program should have graduation from IMF resources as an objective.

7. **In the fiscal area, the overall objective was to increase poverty-reducing spending while maintaining the sustainability of public debt.** The report called for further efforts to increase revenue by strengthening the tax and customs administrations. Improved efficiency, transparency, and monitoring of public spending was to help reorient the budget toward more poverty-reducing expenditures. To improve the quality and efficiency of public

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<sup>2</sup> Because the program was interrupted for more than six months during the period under review, this EPA is of the longer form (see *Ex Post Assessment of Members with a Longer-Term Program Engagement—Revised Guidance Note*, paragraph 8).

services and moderate the increase of the wage bill, the stalled civil service reform was to be revived and the financial viability of the civil service pension was to be restored.

8. **Reinvigorating the uncompleted structural reform agenda was deemed essential to increase potential output and competitiveness.** The report recommended that the future objectives be geared towards accelerating structural reforms and encouraging private investment to foster economic growth and diversification of the economy. In particular, the report called for further reforms of the cotton sector and an acceleration of privatizations. It recommended the use of prior actions to ensure a forceful implementation of the reforms.

### B. Design of the 2005 Program

9. **Overall, the recommendations of the previous EPA were appropriately reflected in the focus and design of the successor program.** The program sought to strengthen macroeconomic stability and deepen structural reforms to foster private sector development and export-led growth, while reducing the vulnerability of the economy to external shocks.

10. **The fiscal framework was designed to reinforce macroeconomic stability and maintain debt sustainability.** Strengthened public finances were to be achieved by mobilizing more revenue and restoring a narrow primary fiscal balance.<sup>3</sup> Accordingly, quantitative conditionality was set on net domestic financing and the narrow primary fiscal balance (performance criteria), and total revenue and the wage bill (indicative targets). The objective of reorienting spending in favor of poverty-reducing expenditure was only indirectly addressed through measures to improve public expenditure management, and not directly supported by conditionality on pro-poor spending.

11. **Structural conditionality aimed to strengthen revenue collection, growth and competitiveness.** Over the period, conditionality was set in the areas of tax and customs administration, cotton sector reform, privatization of public utility companies, and the operations of the Port of Cotonou. While the need to move forward on civil service reform was recognized, little conditionality in this area was included, with the World Bank expected to take the lead. It is noteworthy that many of the structural conditions were expressed in terms of planning for or launching new processes rather than implementing concrete actions.

12. **The risks to the program were correctly identified.** Program documents recognized that success relied on strong ownership and leadership from the authorities and that a lack thereof, together with social and political pressures, constituted the main risk to the program. Vulnerability to external shocks and dependence on cotton and trade with Nigeria also remained major concerns.

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<sup>3</sup> The program defined the narrow primary balance as the difference between total revenue and expenditure excluding interests, foreign-financed investment, and net lending.

13. **The program proved sufficiently flexible to effectively respond to external shocks.** During the program period, the Beninese economy was affected by several shocks, most notably the food and oil price shock and the global financial crisis. Overall, the program was adequately adapted to respond to these exogenous factors, by adjusting the fiscal targets and increasing access.

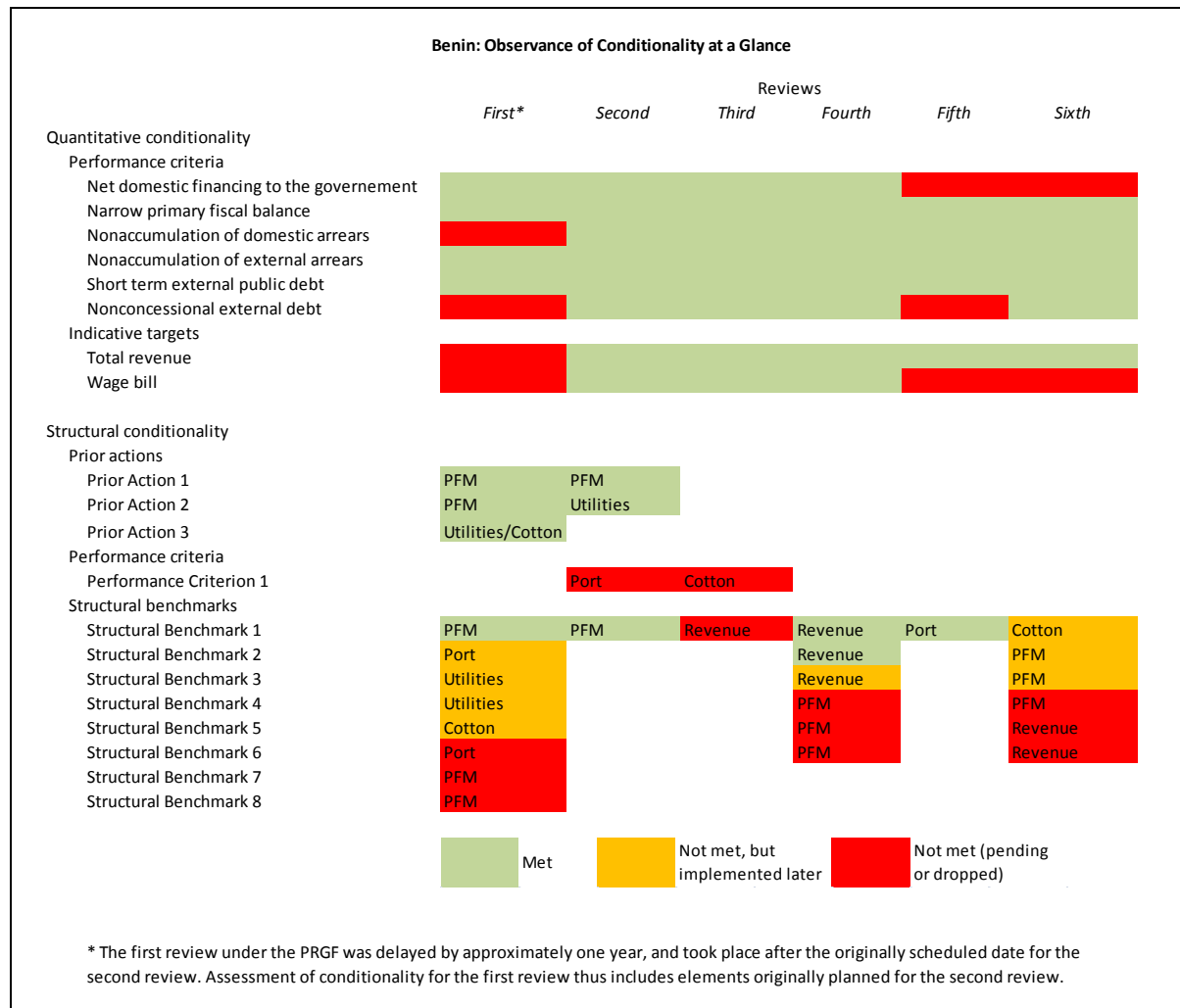
### III. OVERALL MACRO-PERFORMANCE

#### A. Program Performance at a Glance

14. **Benin's overall performance during the period under review was broadly in line with the overarching objectives of maintaining stability.** Growth rose through most of the period and inflation was kept in check. While performance in reducing the current account deficit was mixed, Benin successfully maintained overall stability (Table 1). Fiscal performance was generally strong, with progress toward external and public debt sustainability greatly facilitated by MDRI debt relief (Table 2). However, progress in reducing poverty has been disappointing. While Benin is on track to meet some of the Millennium Development Goals, attaining the others will be difficult (Table 3).

15. **Performance against quantitative program targets was generally adequate.** While occasional waivers of performance criteria were required, including for overruns on domestic fiscal financing and nonconcessional borrowing, these departures from program conditionality did not materially compromise Benin's achievement of the program's underlying objective of a more sustainable fiscal stance.

16. **In contrast, much less progress was made in the implementation of the structural agenda.** State disengagement from the cotton sector, privatization of the electricity parastatals and other utilities, and modernization of the Port of Cotonou, which were considered critical measures to support growth, were repeatedly delayed. Completion of the first review under the arrangement, originally scheduled for December 2005, was delayed by a year owing to a lack of progress on cotton and public utility sectors reform in the run-up to presidential elections. Implementation of structural reform in public financial management (PFM) also lagged, while reforms to boost tax revenue were more successful (Table 4).



## B. Growth Performance in Perspective

17. **Prior to the global financial crisis, Benin's economic growth accelerated steadily.** Growth has averaged 3.8 percent over 2005–09 and, by 2008, had exceeded the program target of 4.5 percent. Benin's performance compared favorably to that of other WAEMU countries, but lagged markedly that of other sub-Saharan African (SSA) countries.

Real GDP Growth: Benin versus Sub-Saharan African Peers, 2005-09  
(Percent change)

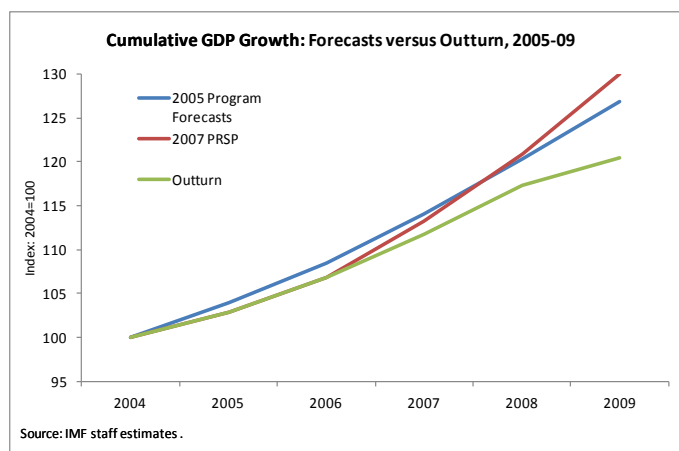
	2005	2006	2007	2008	2009	2005-09 Average
Benin	2.9	3.8	4.6	5.0	2.7	3.8
Sub-Saharan Africa	6.3	6.5	7.0	5.6	2.1	5.5
Non-Fragile LIC SSA	7.3	7.4	7.0	6.9	4.9	6.7
WAEMU	4.7	3.3	3.3	4.0	2.8	3.6

Source: Sub-Saharan Africa Regional Economic Outlook (April 2010).



18. **Nonetheless, Benin’s growth during the period under review was not significantly higher than its historical average.** Growth in the period since 2005 was below the 4.5 percent observed in the first half of the decade. From this perspective, the acceleration observed during 2005–08 was mainly a rebound toward more normal growth, following a weak initial performance that reflected a particularly poor cotton harvest in 2005.

19. **Growth also significantly lagged expectations at the inception of the arrangement and as set in the 2007 PRSP.** While, as noted above, annual growth in 2008 surpassed the initial program target, *cumulative* growth since 2005 fell short of forecasts at the time of program approval. By 2009, the difference amounted to 7 percent. Benin’s growth performance also fell dramatically short of the ambitious



objectives set in the country’s [2007 PRSP](#), to “transform Benin into an emerging country by 2011” through an acceleration of growth to 7.5 percent by 2009 and “double-digit levels” by 2011. Furthermore, while growth in Benin repeatedly fell below projections, outturns for peer countries (as for the world economy) tended to exceed projections during 2005–07, reflecting the world boom.

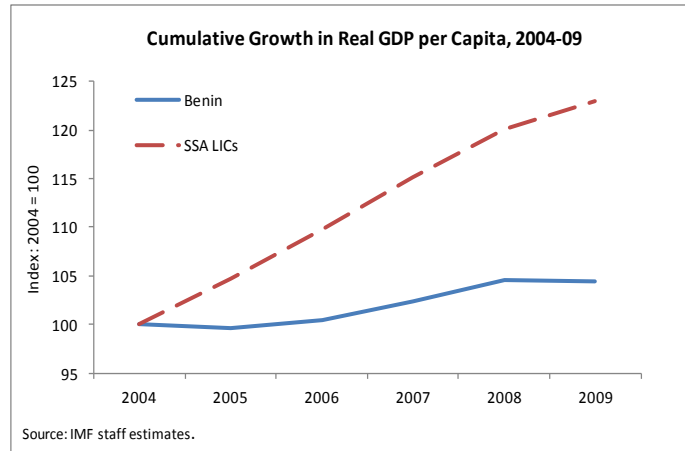
Growth Forecasts and Outturns for World, SSA and Benin, 2005-09  
(Percent change)

	2005	2006	2007	2008	2009
<i>World</i>					
Forecast*	4.4	4.3	4.9	4.8	3.0
Outturn	4.8	5.4	5.0	3.0	-0.6
<i>Sub-Saharan Africa</i>					
Forecast*	5.6	5.9	6.3	6.8	6.3
Outturn	6.0	5.7	6.9	5.5	2.1
<i>Benin</i>					
Forecast*	5.0	4.4	5.1	5.4	5.7
Outturn	2.9	3.8	4.6	5.0	2.7

Source: IMF staff estimates.

\*One-year-ahead projections based on September WEO and Benin staff report of each year.

20. **Benin's growth performance per capita was even weaker.** With population growth in Benin relatively high, its real per capita GDP growth lagged that in the low-income countries (LIC) of Sub-Saharan Africa by a wide margin since 2005. As a result, cumulative growth in Benin's real per capita GDP over 2005–09 was just above 4 percent, compared to an average of 21 percent for all SSA LICs. This significantly hampered progress in poverty reduction.



### C. Why Did Growth Fall below Expectations?

21. **External shocks explain some of growth's underperformance.** Early in the period under review, Benin was adversely affected by the disruption of its trade relations with Nigeria, which was attempting to curtail the re-export of goods imported through Benin as a means of avoiding Nigerian trade taxes. Later, like other LICs, Benin was hit by the 2008 food and fuel price shock, followed shortly thereafter by the impact of the global financial crisis.

22. **A decline in competitiveness also played a role.** Driven mainly by changes in the euro-dollar exchange rate, the CFA franc appreciated in real terms for the whole WAEMU through most of 2006–08. This added to steady erosion in Benin's competitiveness relative to its WAEMU peers since the 1994 CFA devaluation because of higher inflation in Benin. Reflecting structural weaknesses, qualitative indicators of competitiveness also performed relatively poorly, as illustrated by the fall in Benin's ranking in the *World Bank's Doing Business Indicators* from 129 in 2006 to 170 in 2011 (out of 183 countries).<sup>4</sup>

23. **Structural measures that were intended to support growth and competitiveness continued to suffer significant delays, repeating a story already told by the previous EPA:**

- *Cotton sector reform consistently fell short of objectives.* The privatization of the cotton ginning companies, a structural benchmark from the initial program in 2005, was repeatedly delayed owing to political uncertainty, the authorities' concerns that

<sup>4</sup> The fall in Benin's ranking reflects slower progress than in other countries and a deterioration in absolute terms in a number of categories, including the time and cost to obtain a construction permit, export, or close a business.

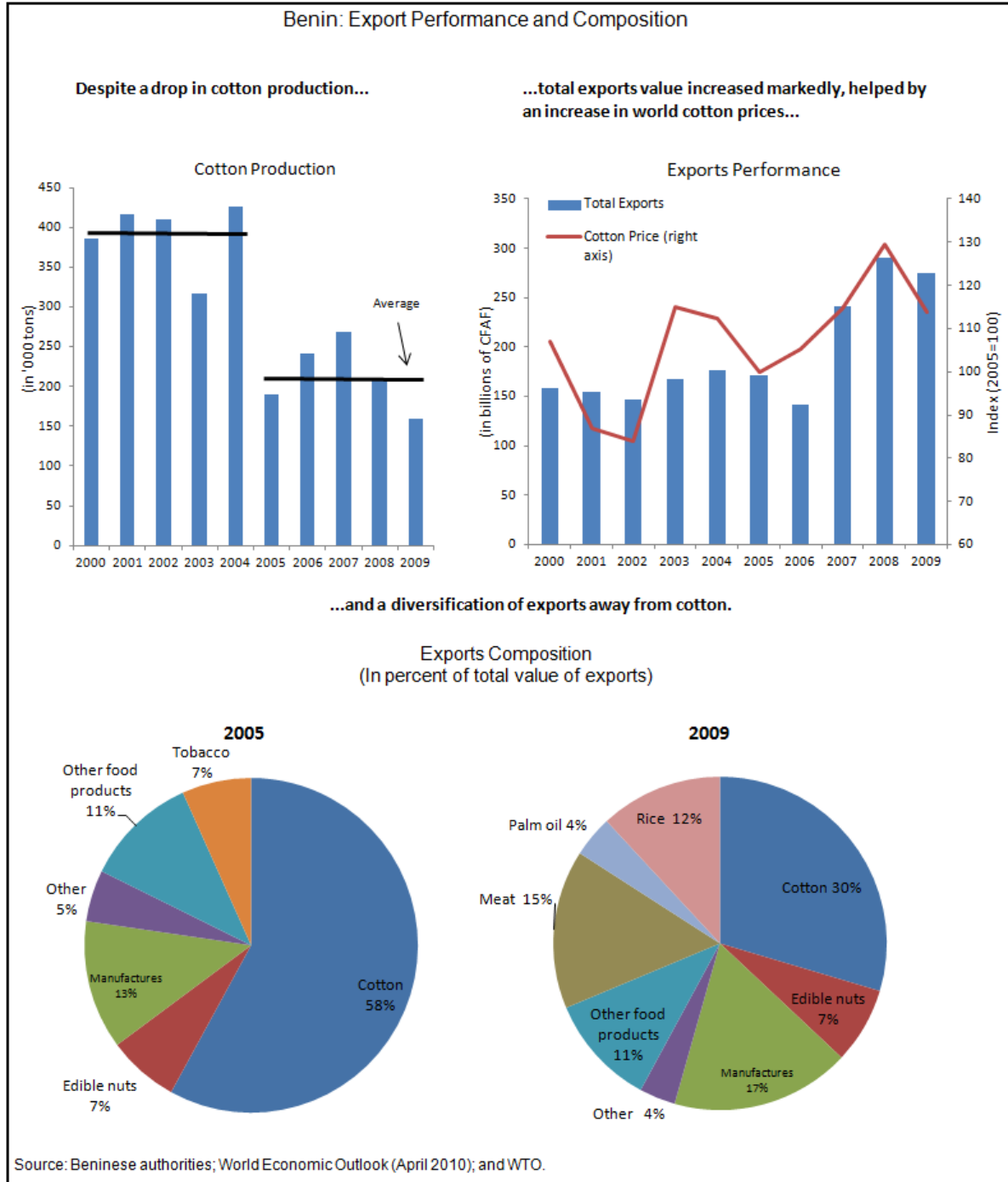
awarding the ginneries to the winning bidder would create a private monopoly, and irregularities in the bidding process.<sup>5</sup> Majority ownership in the ginning company was only transferred to the private sector in 2009. Overall, the incomplete and disorderly reform of the sector disrupted the logistical chains for inputs and financing and eroded regulatory arrangements, resulting in a collapse in cotton production in 2005, with only marginal recovery thereafter.

- *Privatization of the electricity and telecommunications parastatals also lagged.* Action in both areas was identified as a priority at the time of program approval. Addressing the weak financial position of the electricity company, which contributed to unreliable electricity supply—a significant impediment to economic activity—was considered especially important. However, reforms in these areas were chronically delayed and remain on the agenda today.
- *More progress was made in reforming the administration of the Port of Cotonou.* Progress was initially slow, but started accelerating after the management of this initiative was transferred to the Millennium Challenge Account in 2007.

24. **Nonetheless, the economy diversified and exports weathered the collapse in cotton production.** Despite the fall in cotton production, the value of exports registered a robust growth, supported by rising prices and an increased diversification of the economy. The latter reflected the combined effects of the disruption in the cotton sector, which turned some farmers away from their traditional sector, and of micro-policies to support nontraditional sectors. The question remains, however, whether a more successful cotton sector reform could have supported an increase in cotton production *in addition* to the expansion of production in nontraditional areas, leading to higher exports and growth.

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<sup>5</sup> The [staff report for the third review](#) noted that “relevant legal provisions on minimum time for bids preparation and submission were not observed, and there were allegations of insider trading and favoritism.”



25. **The lack of attention devoted to financial sector issues in the program is striking, but understandable.** Despite the recognized importance of financial deepening to support growth, and the significant weaknesses in Benin's financial sector that successive Article IV consultations identified, this area was mostly absent from the program's reform agenda. One explanation relates to the arrangements in place in the WAEMU area, which may have complicated the policy dialogue on financial sector issues and related program design, by creating an institutional mismatch between program engagement, done at the bilateral level,

and financial policies conducted at the regional level. Also, the expectation that a FSAP in Benin would be undertaken in the period—which, in the end, did not happen—may have contributed to putting financial sector reforms on the back burner.

#### IV. FISCAL PERFORMANCE

##### A. Overview

26. **Overall, Benin achieved its objective to preserve long-term fiscal sustainability.** Debt relief and relatively strong fiscal performance helped maintain the risk of debt distress at a moderate level, as evidenced by debt sustainability analyses. The borrowing space opened by the MDRI relief was used with caution, and Benin over-performed the program fiscal balance targets up to 2008. While the program was only targeting the elimination of the narrow primary deficit by 2008 (on a payment order basis), the country actually ran a surplus in 2006–08. Benin’s overall fiscal deficit (excluding grants) remained among the lowest in the WAEMU.

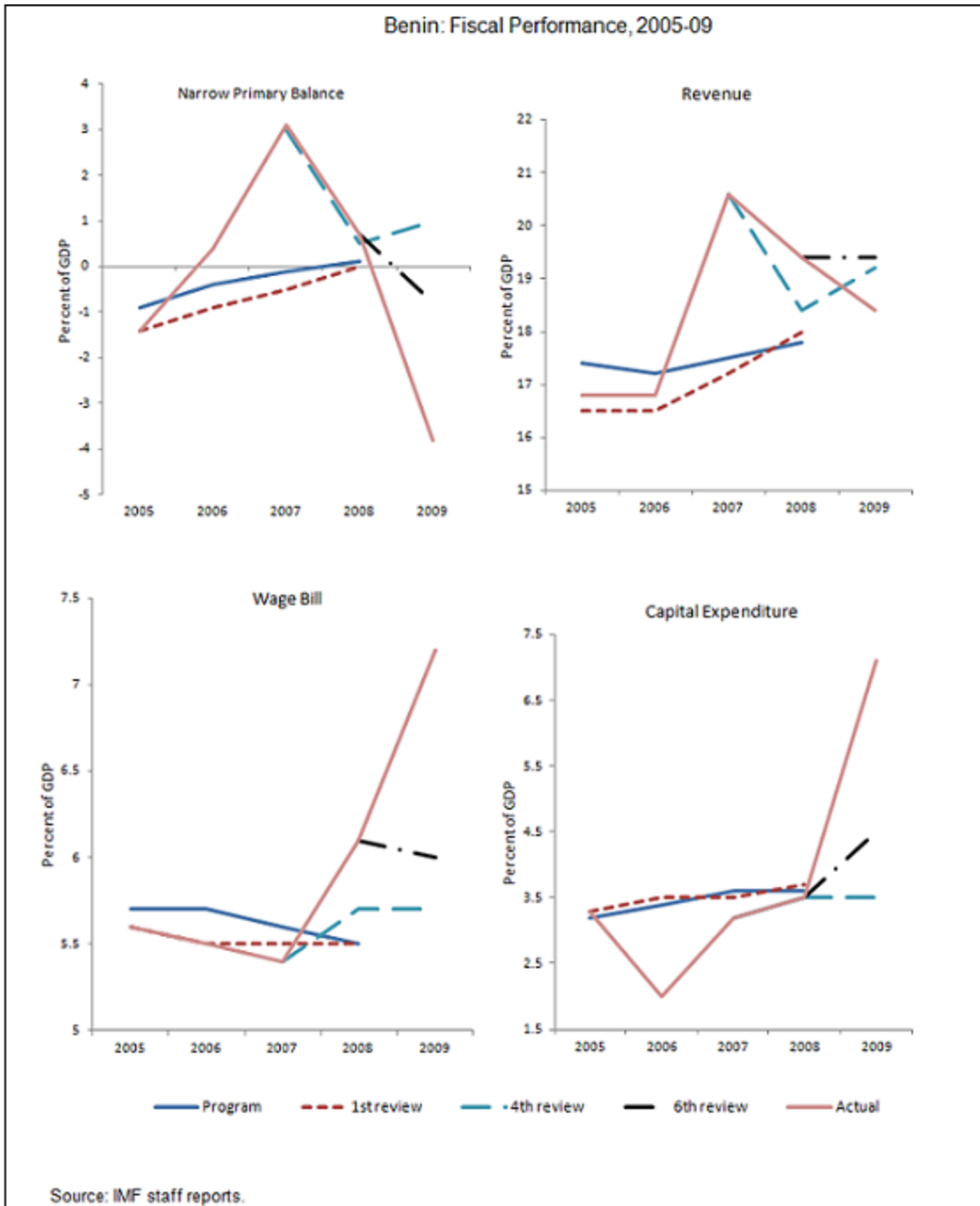
WAEMU: Overall Fiscal Balance, 2005-09  
(Excl. grants on a payment order basis, in percent of GDP)

	2005	2006	2007	2008	2009
Benin	-4.3	-2.5	-2.8	-3.5	-7.3
Burkina Faso	-10.1	-11.2	-12.1	-8.0	-10.5
Côte d'Ivoire	-3.9	-3.0	-1.9	-4.0	-2.7
Guinea Bissau	-12.5	-10.8	-14.0	-11.9	-13.5
Mali	-7.1	-7.6	-7.9	-5.7	-9.4
Niger	-9.5	-6.8	-8.1	-4.4	-10.3
Senegal	-5.8	-7.9	-6.8	-6.9	-8.5
Togo	-4.6	-5.2	-3.6	-2.5	-5.6
WAEMU	-5.9	-6.0	-5.7	-5.6	-7.4

Sources: Sub-Saharan Africa Regional Economic Outlook (April 2010); Benines authorities; and Fund staff.

27. **However, the fiscal balance deteriorated sharply starting in 2008.**

- *In 2008, the deterioration was most evident in the balance on cash basis.* While the overall balance on a payment order basis widened by 0.7 percent, the cash balance deteriorated by 4 percent, reflecting a significant increase in payments made outside of the regular expenditure process (see below). This increased deficit was covered by additional domestic financing from the banking sector, leading to a breach of the corresponding quantitative performance criterion.



- The deterioration continued in 2009.* The narrow primary deficit on a payment order basis exceeded the program target by 3 percent of GDP. Compared to 2008, the overall fiscal deficit (excluding grants) deteriorated by 3.8 percent of GDP, to 7.3 percent of GDP. The downturn reflected a fall in revenue (1 percent), and increases in personnel (1.1 percent) and domestically-financed capital expenditure (3.6 percent), which were not fully offset by cuts in other expenditures and net lending. This deterioration was sharper than in other WAEMU countries, except Niger.

Benin: Fiscal Balance (payment order and cash bases) and Financing, 2005-09  
(In percent of GDP)

	2005	2006	2007	2008	2009
<b>Narrow primary balance (PO, excl. grants)</b>	<b>-1.1</b>	<b>0.4</b>	<b>3.1</b>	<b>0.7</b>	<b>-3.8</b>
Externally-financed capital and interest expenditure (PO)	3.2	2.8	5.8	2.7	3.1
Net lending	0.0	0.0	0.0	1.5	0.4
Overall balance (PO, excl. grants)	-4.3	-2.5	-2.8	-3.5	-7.3
Change in arrears	-0.8	-0.6	-1.2	-0.5	-0.9
Other adjustments	1.7	1.0	0.6	-3.4	-0.9
<b>Overall balance (cash, excl. grants)</b>	<b>-3.4</b>	<b>-2.1</b>	<b>-3.4</b>	<b>-7.4</b>	<b>-9.1</b>
Bank financing	0.8	-2.0	-5.0	4.3	2.6
Non-bank financing	-1.1	0.1	1.3	-0.6	2.1
External financing	3.9	4.2	5.9	3.7	4.5
<b>Total financing</b>	<b>3.7</b>	<b>2.3</b>	<b>2.3</b>	<b>7.3</b>	<b>9.2</b>
Statistical Discrepancy	-0.2	-0.2	1.1	0.1	-0.1

Sources: Beninese authorities; and Fund staff.

### B. Revenue Collection

28. **Owing to significant progress in revenue administration, revenue collection was above expectations during most of the program period.** Revenue over-performed program targets even after deduction of the windfall nontax revenue from cellular phone licenses fees in 2007. This good performance was supported by the successful implementation of a number of structural reforms in tax and custom administrations in the program. However, the pace of reforms slowed toward the end of the program, as evidenced by the two benchmarks set for the last review in this area being missed.

29. **The performance was also strong relative to other WAEMU countries.** Benin's tax revenue-to-GDP ratio remained constantly above the WAEMU average after 2006, and ranked second, after Senegal, in 2007 and 2008.

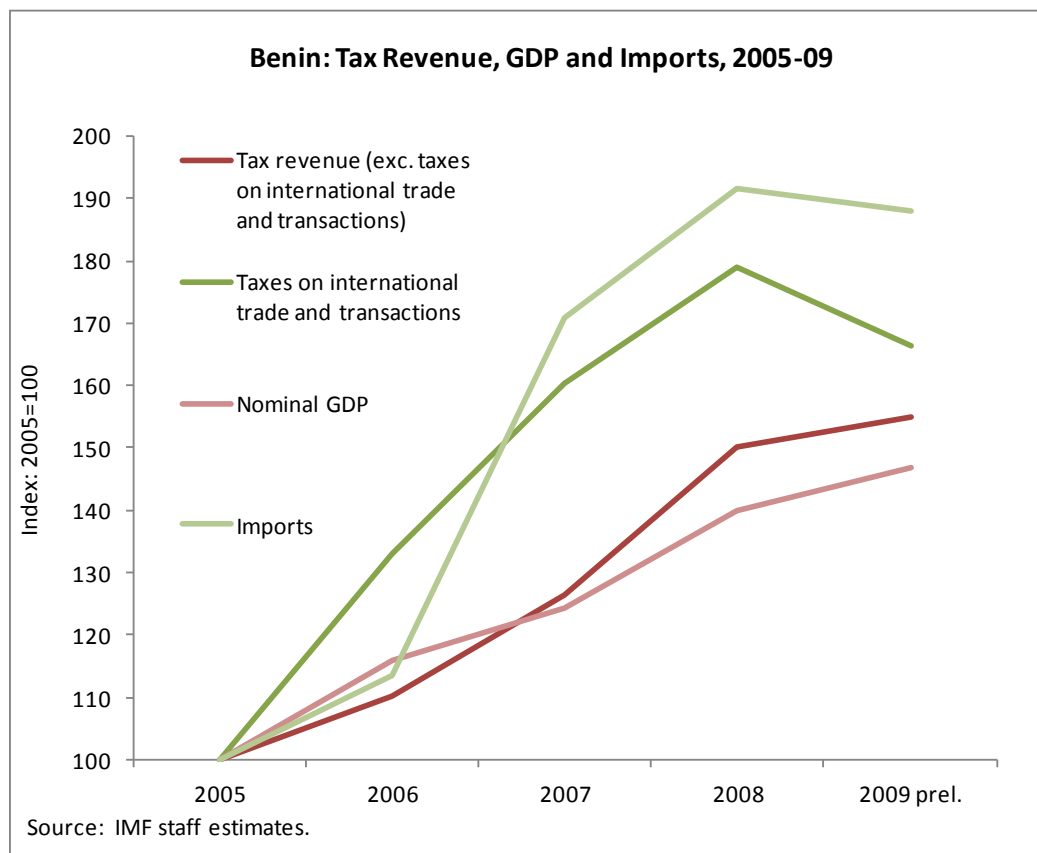
WAEMU: Tax Revenue, 2005-09  
(In percent of GDP)

	2005	2006	2007	2008	2009
Benin	14.4	15.3	16.8	17.1	16.0
Burkina Faso	11.8	12.0	12.5	12.2	12.1
Côte d'Ivoire	14.5	15.4	15.5	15.6	16.9
Guinea-Bissau	11.5	11.1	10.3	10.2	12.0
Mali	15.4	14.9	14.2	13.3	14.2
Niger	10.2	10.7	11.5	11.7	13.0
Senegal	18.5	18.8	20.1	18.3	18.8
Togo	14.6	15.4	16.4	16.3	16.4
WAEMU	14.7	15.2	15.7	15.3	15.9

Sources: Beninese authorities and IMF staff estimates.

30. **Tax revenue declined sharply in 2009 as a share of GDP, reflecting a decline in tax bases, tax rate cuts, and a significant increase in tax exemptions.**

- *Revenue remained heavily dependent on volatile revenue from taxes on international trade, which took a hit in 2009.* Customs revenue represents about half of total tax revenue. However, imports are a more volatile tax base than domestic activity: during the global crisis, GDP growth in Benin weakened only in 2009, and remained positive, while imports growth started to decelerate in 2008 and turned negative in 2009. Moreover, the probability of shocks negatively impacting external trade is higher in Benin than in other countries, as transit trade is vulnerable to deterioration in trade relations with neighboring countries and diversion of trade flows.
- *Furthermore, the 2009 budget law provided for a number of new tax cuts and exemptions that compounded the tax-base effect.* Tax rates were cut for the tax on noncommercial profits and the tax on industrial and commercial profits, as well as the employers' tax on salaries. Newly created enterprises and the agricultural, telecommunications and financial sectors were the main beneficiaries of the loosely defined tax exemptions. In particular, tax exemptions granted under the regime of the “*zone franche industrielle*” were extended to new categories of transactions and companies (e.g., telecom companies, call centers, holdings).





### C. Expenditure

31. **Government spending was contained until mid-2008.** However, slippages in personnel and capital expenditure occurred at the end of the program, as described below. While these primarily reflected political decisions, repeated delays in implementing PFM measures did not help prevent spending overrun. Furthermore, only a few conditions in the area of PFM directly targeted weaknesses in the management of personnel and other expenditures. Most of the conditionality dealt with the settlement of past arrears, basic fiscal transparency requirements, and preparatory steps for broader reforms (setting up of a PFM reform strategy, audit of the financial management information system). Despite these overruns, Benin's government expenditure-to-GDP ratio remained near the average of WAEMU countries.

WAEMU: Total Government Expenditure , 2005-09 <sup>1/</sup>  
(Payment order basis, in percent of GDP)

	2005	2006	2007	2008	2009
Benin	21.2	19.3	23.3	21.2	24.7
Burkina Faso	22.7	23.6	25.6	21.2	24.1
Côte d'Ivoire	19.9	20.8	20.5	21.1	21.1
Guinea Bissau	21.4	20.6	22.0	21.0	22.5
Mali	24.6	24.9	24.5	21.2	26.0
Niger	20.2	19.8	23.1	22.8	24.2
Senegal	23.6	26.6	27.5	26.5	27.0
Togo	20.4	22.1	20.6	19.5	24.6
WAEMU	21.8	22.6	23.6	22.2	24.1

1/ WEO definitions.

Source: Sub-Saharan Africa Regional Economic Outlook (April 2010).

32. **The wage bill increased rapidly as a share of GDP in 2008–09.** The government agreed to a 25 percent increase in teachers' base salaries in July 2008, as a response to rising food and oil prices and pressures from civil service unions. It also granted temporary bonuses to civil servants in 2009, as part of an anti-crisis stimulus. Subsequently, the wage bill jumped from 5.4 percent of GDP in 2007 to 7.2 percent in 2009—the second highest in the WAEMU—leading to repeated breaches of the related indicative target.

WAEMU: Wage Bill, 2005-09  
(Payment order basis, in percent of GDP)

	2005	2006	2007	2008	2009
Benin	5.6	5.5	5.4	6.1	7.2
Burkina Faso	4.9	5.3	5.8	5.5	6.0
Côte d'Ivoire	6.5	6.5	6.7	6.8	6.9
Guinea-Bissau	13.4	12.4	12.0	9.8	9.4
Mali	4.8	4.6	4.7	4.8	5.1
Niger	3.5	3.6	3.5	3.5	3.7
Senegal	5.5	5.8	6.1	5.9	6.2
Togo	4.4	5.1	5.4	5.3	6.1
WAEMU	5.6	5.7	5.9	5.8	6.2

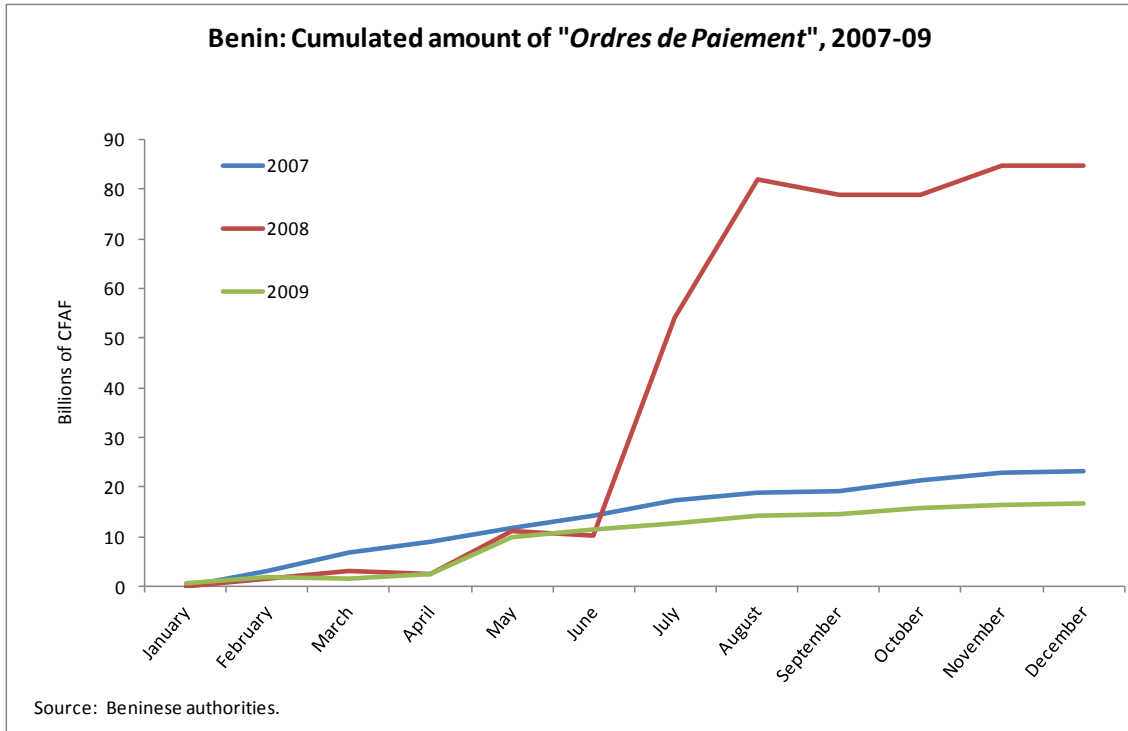
Sources: Beninese authorities and staff estimates.

33. **Domestic capital spending doubled in 2009.** Domestically-financed capital expenditure rose from 3.5 percent of GDP to 7.1 percent of GDP in 2009. The majority of these capital expenditures were commitments taken in 2008 for exceptional expenditures that were not authorized in the initial budget. In November 2008, a presidential order approved a supplementary budget increasing appropriations by 141 billion FCFA (4.7 percent of GDP). These appropriations were mostly carried forward to 2009, and used to pay investments initiated in 2008.

#### D. Spending Tracking and Accounting Issues

34. **Spending tracking and accounting issues blurred the picture in 2008–09.** The amount of “*ordres de paiement au Trésor*” (OPs), i.e., direct payment instructions given to the Treasury without being processed through the regular chain of expense raised sharply in 2008 to 2.8 percent of the GDP (from 0.9 percent in 2007). The amount of OPs was particularly high in July and August 2008. A [multi-donor evaluation report of December 2008](#) linked this situation to “emergency needs linked to CEN-SAD summit, the management of the oil and fuel crisis and the implementation of school construction program.” Program documents, however, referred to subsidies linked to the oil and food crisis, and the regularization of past domestic arrears, but did not refer to the CEN-SAD summit.<sup>6</sup> The large increase in the “float” in the fiscal table in 2008 (to 3.4 percent of GDP) raises the question of whether all of these transactions were appropriately recorded in the expenditure and fiscal balance on a payment order basis.

<sup>6</sup> The Community of Sahel-Saharan States (CEN-SAD) groups 28 African governments. Its 10<sup>th</sup> Summit took place in Cotonou in June 2008. The Beninese authorities launched a major program of public works to accommodate the Summit. These expenditures were not authorized in the 2008 initial budget and were partly processed through exceptional procedures (“*ordres de paiement au Trésor*”) in July and August 2008. A report on the preparation of the CEN-SAD Summit prepared by the *Inspection Générale d’Etat* (internal audit unit attached to the President) was submitted to the Council of Ministers in July 2009. According to the Beninese press, this report underscored delays in the achievement of the works, quality problems, financial overruns and irregularities both regarding public procurement and public expenditure management.



**35. Data weaknesses did not allow a monitoring of poverty-reducing expenditures.**

In the initial design of the program, a moderate increase in externally-financed capital expenditure and the containment of the wage bill should have provided fiscal space to increase poverty-reducing expenditures. However, the program could not monitor poverty-reducing expenditures, given the weaknesses of the expenditure classification in Benin.

## V. CONCLUSION

**36. The low per capita GDP growth and the contribution of Fund's programs to macro-stability provide a strong rationale for continued engagement with Benin.**

Previous programs have helped achieve and maintain macro-stability program despite a challenging external environment. Inflation was gradually reduced and growth accelerated somewhat. Following debt relief, the stock of external debt was radically reduced and then kept at a low level by prudent fiscal policy throughout most of the program. These achievements provide a rationale for continued engagement with Benin in an uncertain environment, while persistent low per capita growth clouds the prospects for graduating to a mature-stabilizer status.

**37. No lasting progress in growth will be achieved without the strong support of structural reforms.** While successive Fund programs recognized the criticality of structural reforms, key areas, such as cotton sector and parastatals reforms were beset by delays, contributing to a growth performance that repeatedly fell short of expectations. As noted in the 2004 EPA, the repeated delays in reform implementation call into question the authorities' ownership of the reform agenda, as well as, perhaps, the realism of the program's

conditionality. In designing future Fund programs, consideration should be given to more focused conditionality targeting the most critical measures, oriented toward actions rather than intentions, and front loaded (e.g., through the use of prior actions) as a signal of the authorities' commitment. It may also be appropriate to factor in the program a slower pace of reforms, leading to a more conservative macro-framework to guide assessments of vulnerability and debt sustainability. Financial sector issues warrant more attention; an FSAP would help determine key priorities in this area.

**38. On the fiscal front, tax legislation, civil service, and public financial management reforms remain key to sustain the hard-won progress towards fiscal stability.**

Ultimately, however, fiscal discipline is a matter of political commitment.

- *Further efforts to broaden the tax base and a reduction in tax exemptions are needed.* Revenue administration reforms received constant attention in the 2005–09 program, and despite some delays in implementation, tax collection improved. However, the deterioration in revenue since 2009 has exposed the cost of too loosely defined tax exemptions and the persistent vulnerability to external trade. These issues could be addressed by a comprehensive tax legislation reform to broaden the tax basis (for instance, by the introduction of personal income tax) and reduce tax exemptions, as recommended by earlier technical assistance reports.
- *A wage bill ceiling is neither a substitute for civil service reform, nor for political commitment to spending restraint.* The program relied almost exclusively on a global wage bill ceiling to contain personnel expenditure. In five years, only two structural benchmarks were related to the civil service reform (settlement plan of wage arrears and pensions reform), and the benchmark on pensions reform was missed. Achieving sustainable control on the wage bill requires medium-term planning of recruitments and promotions, to ensure consistency with annual wage bill targets. Specific short-term measures could include setting up a centralized data base for human resources and wage bill management purposes, and building an adequate wage bill forecasting model.
- *Beyond wages, other measures to strengthen PFM should be pursued, in line with WAEMU directives.* The adoption by the WAEMU in 2009 of new directives reflecting international good practices (to be transposed in national law by member countries by December 2011) provides a welcome opportunity to reform budget execution procedures. As noted, the use of exceptional procedures (OPs) has proved a major loophole in the framework for fiscal discipline. Going forward, careful monitoring of expenditures processed through exceptional procedures is warranted. Improving the information flows between spending units and the Treasury should also be a medium-term structural objective, so as to allow for a better tracking of disaggregated expenditure data on a cash basis.

39. **This review also highlights the importance of close cooperation between the Fund and the World Bank.** This is particularly important given the limited number of policy tools at the authorities' disposal and the centrality of structural reforms, where the Bank has often the lead, to the success of the IMF-supported program. Our assessment of the working relationship between the Fund and Bank teams is that this interaction was broadly effective although crucial reforms, such as that of the civil service, seemed to have suffered from a lack of leadership.

40. **Benin's experience illustrates the value of measures explicitly focused on safeguarding social and priority expenditures.** The approach adopted in the 2009 reform of LIC facilities, notably the requirement that ECF-supported programs include an indicative floor on social and other priority spending, provides a mechanism to help safeguard priority spending in the future.

41. **The three-year ECF arrangement approved by the Executive Board in June 2010 already takes into account some of these lessons.** The program builds on the previous program by maintaining the focus on fiscal consolidation and debt sustainability, the fiscal adjustment being predicated on increased revenue collection and a strict limit on recurrent expenditure, safeguarding priority social and infrastructure spending. On the expenditure side, an indicative target on the use of payment orders issued outside the expenditure chain has been introduced. The program maintains the focus on structural reforms to improve efficiency in revenue and customs administration and move ahead with the government privatization program.<sup>7</sup> While, in line with guidance from the Executive Board in 2007, the indicative target on wage expenditure has been dropped, the program is aiming for a more sustainable approach by including the adoption of a civil service reform as a structural benchmark. However, progress in civil service reform in particular and structural reforms in general will require strong political leadership, a strengthened ownership of the reform agenda, and effective Bank-Fund collaboration.

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<sup>7</sup> In particular, the program includes measures to improve the information systems of the tax and customs administration, the implementation of a one-stop window in the Port of Cotonou, the introduction of a personal income tax. The government is also expected to adopt a regulatory framework governing the energy sector.

Table 1. Benin: Selected Economic and Financial Indicators, 2004–2009

	2004	2005	2006	2007	2008	2009
						Prel. Est.
(Annual percentage change, unless otherwise indicated)						
National income						
GDP at current prices	3.4	8.3	7.0	7.4	12.6	4.7
GDP at constant prices	3.0	2.9	3.8	4.6	5.0	2.7
GDP deflator	0.3	5.2	3.1	2.6	7.2	2.0
Consumer price index (average)	0.9	5.4	3.8	1.3	8.0	2.2
Consumer price index (end of period)	2.6	3.7	5.3	0.3	9.9	-2.9
Central government finance						
Revenue	0.8	8.8	7.2	31.4	6.1	-0.9
Expenditure and net lending	2.8	11.6	-2.1	29.9	10.0	17.6
Money and credit						
Net domestic assets <sup>1</sup>	3.4	13.0	-4.1	-0.9	25.5	7.1
Domestic credit <sup>1</sup>	4.8	13.4	-2.6	-1.5	24.3	12.5
Net claims on central government <sup>1</sup>	1.5	3.2	-7.3	-14.4	11.4	6.6
Credit to the nongovernment sector <sup>1</sup>	3.4	10.2	4.6	12.9	12.9	5.9
Broad money	-6.7	21.8	16.5	17.6	28.8	6.2
Velocity (GDP relative to average M2)	3.6	3.7	3.3	3.0	2.8	2.5
External sector (in terms of CFA francs)						
Exports of goods and services	7.0	-5.3	14.4	36.7	17.9	-1.6
Imports of goods and services	-2.2	-0.7	12.3	43.8	7.5	1.1
Nominal effective exchange rate (minus = depreciation)	4.2	-2.1	-0.9	3.7	2.3	-1.6
Real effective exchange rate (minus = depreciation)	2.3	0.1	0.0	0.9	4.5	0.0
(Percent of GDP, unless otherwise indicated)						
Basic ratios						
Gross investment	18.5	18.6	17.2	20.5	20.0	23.3
Government investment	6.1	6.2	4.6	7.5	5.8	9.6
Nongovernment investment	12.4	12.4	12.6	13.0	14.2	13.6
Gross domestic saving	7.6	8.0	6.2	5.0	6.7	10.0
Government saving	1.4	0.9	1.0	3.9	1.7	1.7
Nongovernment saving	6.2	7.0	5.2	1.1	5.0	8.3
Gross national saving	11.6	12.4	11.9	10.4	12.0	15.7
Central government finance						
Revenue	16.7	16.8	16.8	20.6	19.4	18.4
Expenditure and net lending	20.5	21.1	19.4	23.4	22.9	25.7
Primary balance <sup>2</sup>	-3.0	-4.0	-2.3	-1.2	-3.1	-6.8
Basic primary balance <sup>3</sup>		-1.1	0.4	3.1	0.7	-3.8
Overall fiscal deficit (payment order basis, excl. grants)	-3.8	-4.3	-2.5	-2.8	-3.5	-7.3
Overall fiscal deficit (cash basis, excluding grants)	-4.7	-3.4	-2.1	-3.4	-7.4	-9.1
Debt service in percent of revenue	8.6	5.1	2.7	7.9	2.9	3.7
Total government debt	35.1	42.9	14.6	20.9	26.7	28.1
External sector						
Balance of goods and services	-11.0	-10.7	-10.9	-15.5	-13.3	-13.3
Current account balance (including grants)	-7.0	-6.3	-5.3	-10.1	-8.0	-7.5
Current account balance (excluding grants)	-7.7	-6.6	-6.0	-10.8	-9.0	-9.8
Overall balance of payments	-3.1	2.7	4.6	3.2	1.6	-1.6
Debt-service to exports ratio	10.1	7.0	3.4	9.6	3.2	4.1
Debt-to-GDP (post MDR)	30.8	39.0	10.9	11.7	16.7	16.3
Nominal GDP (in billions of CFA francs)	2,138.2	2,314.8	2,475.8	2,658.1	2,992.6	3,134.4
CFA francs per U.S. dollar (period average)	528.3	527.5	522.9	479.3	445.5	470.7
Population (in millions)	8.1	8.4	8.6	8.9	9.1	9.4
Nominal GDP per capita (in U.S. dollars)	497.7	522.5	548.3	624.8	736.2	709.8

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

Note: ... = not available

<sup>1</sup> In percent of beginning-of-period broad money.<sup>2</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.<sup>3</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

Table 2. Benin: Consolidated Central Government Operations, 2004–09

	2004	2005	2006	2007	2008	2009 Prel.
	(Percent of GDP)					
Total revenue	16.7	16.8	16.8	20.6	19.4	18.4
Tax revenue	14.6	14.4	15.3	16.8	17.1	16.0
Tax on international trade	7.3	7.6	8.4	9.4	9.3	8.3
Direct and indirect taxes	7.3	6.9	6.9	7.4	7.8	7.7
Nontax revenue	2.1	2.4	1.5	3.8	2.3	2.4
Total expenditure and net lending	20.5	21.1	19.4	23.4	22.9	25.7
Current expenditures	14.3	14.9	14.7	15.9	15.5	15.6
Current primary expenditures	13.6	14.6	14.5	14.4	15.2	15.1
Wage bill	5.5	5.6	5.5	5.4	6.1	7.2
Pensions and scholarships	1.2	1.1	1.2	1.3	1.2	1.3
Current transfers	3.1	3.5	4.1	4.0	4.0	3.5
Expenditure on goods and services	3.8	4.3	3.7	3.7	3.9	3.2
Interest	0.7	0.3	0.2	1.6	0.3	0.5
Internal debt	0.1	0.1	0.0	0.0	0.2	0.2
External debt	0.7	0.2	0.2	1.6	0.2	0.3
Capital expenditure and net lending	6.2	6.2	4.6	7.5	7.3	10.1
Capital expenditure	6.1	6.2	4.6	7.5	5.8	9.6
Financed by domestic resources	2.9	3.3	2.0	3.2	3.5	7.1
Financed by external resources	3.3	2.9	2.6	4.3	2.3	2.6
Net lending (minus = reimbursement)	0.0	0.0	0.0	0.0	1.5	0.4
Overall balance (payment order basis, excl. grants)	-3.8	-4.3	-2.5	-2.8	-3.5	-7.3
Primary balance <sup>1</sup>	-3.0	-4.0	-2.3	-1.2	-3.1	-6.8
Basic primary balance <sup>2</sup>	0.3	-1.1	0.4	3.1	0.7	-3.8
Change in arrears	-0.4	-0.8	-0.6	-1.2	-0.5	-0.9
External debt	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.4	-0.8	-0.6	-1.2	-0.5	-0.9
Payments during complementary period/float <sup>3</sup>	-0.5	1.7	1.0	0.6	-3.4	-0.9
Overall balance (cash basis, excl. grants)	-4.7	-3.4	-2.1	-3.4	-7.4	-9.1
Financing	4.5	3.7	2.3	2.3	7.3	9.2
Domestic financing	0.1	-0.3	-2.0	-3.6	3.7	4.7
Bank financing	0.4	0.8	-2.0	-5.0	4.3	2.6
Net use of Fund resources	-0.1	-0.1	-1.3	0.0	0.3	0.2
Other	0.5	0.9	-0.8	-5.0	4.0	2.3
Nonbank financing	-0.3	-1.1	0.1	1.3	-0.6	2.1
Privatization	0.1	0.0	0.0	0.2	0.2	0.6
Restructuring	-0.2	-1.1	-0.2	0.0	-0.4	-0.4
Other	-0.1	0.1	0.3	1.2	-0.4	1.9
External financing	4.4	3.9	4.2	5.9	3.7	4.5
Project financing	3.3	2.9	2.6	4.3	2.3	2.6
Grants	1.9	1.7	1.5	2.3	0.7	0.9
Loans	1.4	1.2	1.1	2.0	1.6	1.7
Amortization due	-0.4	-0.4	-22.2	0.0	-0.3	-0.3
Program aid	1.6	1.4	0.7	1.7	1.6	2.3
Grants	0.7	0.4	0.7	0.7	1.0	2.3
Loans	0.9	1.1	0.0	1.0	0.6	0.0
Statistical discrepancy	0.1	-0.2	-0.2	1.1	0.1	-0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Total revenue and grants	19.3	18.9	19.1	23.6	21.2	21.6
Revenue	16.7	16.8	16.8	20.6	19.4	18.4
Grants	2.6	2.1	2.2	3.0	1.7	3.2
Total loan disbursement	2.3	2.3	1.1	3.0	2.2	1.7
Overall balance incl. grants (payment order basis)	-1.2	-2.3	-0.3	0.2	-1.7	-4.1
GDP (in billions of CFA francs)	2,138.2	2,314.8	2,475.8	2,658.1	2,992.6	3,134.4

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

Note: ... = not available

<sup>1</sup> Total revenue minus current primary expenditure, capital expenditure, and net lending.<sup>2</sup> Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.<sup>3</sup> Payment orders whose payment has been postponed to the following period.

Table 3. Benin: Millennium Development Goals

	1990	1995	2000	2005	2008	2015 Target
<b>Goal 1. Eradicate extreme poverty and hunger</b>						
Target: 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	...	...	47.3	...	28.0
- Population below minimum level of dietary energy consumption (percent)	...	29.0	...	...	...	14.6
<b>Goal 2. Achieve universal primary education</b>						
Target: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
- Net primary enrollment ratio (percent of relevant age group)	41.0	60.0	...	87.0	93.0	100.0
- Percentage of cohort reaching grade 5	55.0	...	75.0	63.0	...	100.0
- Youth literacy rate (percent age 15-24)	64.0	...	...	45.3	53.3	...
<b>Goal 3. Promote gender equality and empower women</b>						
Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						
- Ratio of girls to boys in primary school (percent)	51.0	...	69.0	80.0	87.0	100.0
- Ratio of girls to boys in secondary school (percent)	42.0	44.0	46.0	57.0	...	100.0
- Proportion of seats held by women in the national parliament (percent)	3.0	7.0	6.0	7.0	11.0	30.0
<b>Goal 4. Reduce child mortality</b>						
Target: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate						
- Under-five mortality rate (per 1,000)	184.0	162.0	144.0	129.0	121.0	65.0
- Infant mortality rate (per 1,000 live births)	111.0	99.0	89.0	81.0	76.0	39.0
- Immunization against measles (percent of children under 12-months)	79.0	65.0	72.0	61.0	61.0	100.0
<b>Goal 5. Improve maternal health</b>						
Target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.						
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	790.0	690.0	560.0	460.0	410.0	125.0
<b>Goal 6. Combat HIV/AIDS, malaria and other diseases</b>						
Target: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
- HIV/AIDS prevalence	0.1	0.8	1.3	1.3	1.2	1.9
Target: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
- Incidence of tuberculosis (per 100,000)	77.0	80.0	85.0	89.0	92.0	...
<b>Goal 7. Ensure environmental sustainability</b>						
Target: Halve by 2015 proportion of people without access to safe drinking water						
- Access to improved water source (percent of population)	56.0	61.0	66.0	72.0	75.0	100.0
<b>Goal 8. Develop a global partnership for development</b>						
Target: In cooperation with the private Sector, make available benefits of new technologies, especially information and communications						
- Mobile cellular subscriptions (per 100 people)	0.0	0.0	1.0	8.0	40.0	...

Sources: Beninese authorities and World Bank estimates and projections.



Table 4. Benin: Performance on Structural Performance Criteria and Structural Benchmarks, 2005-2009

Measure	Type of conditionality	Initial Test Date	Implementation	Area
Forwarding to Fund staff of the minutes of the Cabinet meeting approving the MEFP and 2005 spending adjustment	Prior action	Program approval	Completed as planned	Public Financial Management
Signing by the government of memorandum of understanding with successful bidders on the three lots of ginneries proving for the transfer of plants by end-October	Prior action	Program approval	Completed as planned	Cotton
Launching, to a short list of investment bankers, of invitations to bid for advising in the preparation of the privatization of Benin Telecoms SA	Prior action	Program approval	Completed as planned	Utilities
Preparation of terms of reference to conduct an audit, develop the productivity and expand the activities of the Port of Cotonou; and launching of invitations to bid to a short list of firms	Prior action	Program approval	Completed as planned	Port of Cotonou
Adoption of a strategy to divest the final lot of ginneries	SB	End-September 2005	No information on implementation available in staff report	Cotton
Installation of the software for the centralized clearing and invoicing management center of the Port of Cotonou	SB	End-September 2005	Completed with delay (October 2005)	Port of Cotonou
Approval of disengagement strategies for Benin Telecoms SA, the cotton parastatal (SONAPRA), and for the electrical power company (SBEE)	Prior action	First review	Completed as planned	Utilities / cotton
Selection of an auditing firm to assess outstanding domestic arrears and develop arrears settlement plan	Prior action	First review	Completed as planned	Public Financial Management
Formal reaffirmation of government commitment to neither contract nor guarantee nonconcessional loans	Prior action	First review	Completed as planned	Public Financial Management
Start up the centralized clearing and invoicing management center of the Port of Cotonou	PC	End-December 2005	Completed with delay (March 2006)	Port of Cotonou
Approval of a strategy to divest Benin Telecoms SA and launching of invitations to bid for the implementation of this strategy	SB	End-December 2005	Partly transformed into prior action for the first review	Utilities
Transmittal to Fund staff of the proposed program to develop and expand the activities of the Port of Cotonou	SB	End-December 2005	Reset to end-June 2007. No further information on implementation available in staff reports	Port of Cotonou
Launching of the invitation to bid for the implementation of the government strategy for divesting the SBEE	SB	End-December 2005	Not completed / partly transformed into second review prior action	Utilities
Transmittal to Fund staff of the report of government's debt vis-à-vis civil servants resulting from the past wage freeze and the accompanying plan to settle these obligations	SB	End-December 2005	Reset to December 2006, completed as prior action in the second review	Public Financial Management
Transmittal to the Audit Chamber of the relevant accounts of the 2004 budget; transmittal to the National Assembly of the settlement laws for the 2001 and 2002 budgets	SB	End-December 2005	No information in staff reports on implementation	Public Financial Management
Formalization and execution of the methodology for collecting, processing and presenting government finance statistics, including the government financial operations table, and increased staffing of the permanent secretariat of the National Commission for Development and Fight Against Poverty (CNDLP) for effective implementation of the methodology.	SB	End-December 2005	Completed as planned	Public Financial Management
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.	SB	End-December 2006	Documents transmitted to audit chamber *	Public Financial Management
Effective start of consolidated electronic billing at one-stop window at Cotonou Port	PC	End-December 2006	Not met; reform incorporated into the MCA-Benin project	Port of Cotonou
Completing a revised timetable for privatization	Prior action	Second review	Completed as planned	Utilities
Transmittal to Fund staff of the report on government's wage debt to civil servants resulting from past wage freeze (including related settlement plan)	Prior action	Second review	Completed as planned	Public Financial Management
Establishment of a privately controlled ginning company to purchase and operate the ginning plants of SONAPRA	PC	End-June 2007	Not met (call for bids unsuccessful)	Cotton
Completion of a study (and related action plan) updating the customs reform agenda	SB	End-September 2007	Completed with delay (end-December 2007)	Revenue
Audit of public finance information management systems (SIGFIP, ASTER, WMONEY)	SB	End-December 2007	Reset to end-December 2008, completed	Public Financial Management
Implementation of a single taxpayer identification number.	SB	End-December 2007	Completed as planned	Revenue
Completion of a strategy for reform of the civil service pension fund (FNRB)	SB	End-December 2007	Reset to end-December 2008, delayed	Public Financial Management
Extension of ASYCUDA++ to the computer systems of five regional customs units/offices.	SB	End-March 2008	Completed as planned	Revenue
Completion of a strategy to improve public finance management.	SB	End-March 2008	Reset to end-December 2008, completed with delay	Public Financial Management
Involve external expertise in "Port Autonome de Cotonou" management	SB	End-June 2008	Completed as planned	Port of Cotonou
Completion of new cotton sector reform strategy	SB	End-December 2008	Completed with delay	Cotton
Extension of ASYCUDA++ to the computer systems of twelve regional customs units/offices.	SB	End-March 2009	Delayed	Revenue
Adoption of a strategic information system at the DGID, after an audit in order to operationalize the single taxpayer identification function	SB	End-March 2009	Delayed	Revenue

Sources: IMF staff reports

\* The relevant staff reports did not specify whether this benchmark was met on time.

## Annex I. The Authorities' Response

**The authorities broadly shared the conclusions and recommendations of the report.**<sup>8</sup>

They thought that, overall, the report adequately reflected developments in Benin during the period under review. They had the following observations on specific points:

- On *structural reforms*, they noted that Benin had three major elections during 2006–08, which complicated the implementation of reforms. They stressed the progress made starting 2008 in disinvesting from public companies, including the completion of the privatization of the cotton ginning company, and the disengagement from the Continental Bank, two hotels, a cement company and a wood-processing company. They considered that this progress, together with that made on revenue measures, do not support the view that the authorities lacked ownership of the structural agenda.
- On *growth and competitiveness*, they noted that, in addition to the factors noted in the report, the Beninese economy suffered from insufficient private investment and from a fall in imports of electricity. The Central Bank also noted that, going forward, the discussion of competitiveness should be framed in the context of the intended move toward a currency union in the Economic Community of West African States (ECOWAS).<sup>9</sup>
- On *fiscal issues*, they stressed that measures were taken on the authorities' own initiative in 2009 to limit the use of exceptional spending procedures, and that these measures were later incorporated into the new program with the Fund.

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<sup>8</sup> A draft report was discussed with the authorities during a mission to Cotonou in November 11–15, 2010.

<sup>9</sup> ECOWAS comprises Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.