



BENIN

TECHNICAL ASSISTANCE REPORT— FISCAL TRANSPARENCY EVALUATION

April 2022

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Benin

Fiscal Transparency Evaluation

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Technical Report

November 2021

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ABBREVIATIONS AND ACRONYMS

AAB	Africaine des assurances du Bénin
APIEX	Investment and Export Promotion Agency
ARMP	Public Procurement Regulatory Authority
BAI	Analysis and Investigation Bureau
BAIC	<i>Banque Africaine pour l'Industrie et le Commerce</i>
BCEAO	Central Bank of West African States
BGCE	Government trial balance
BIBE	Banque internationale du Bénin
BIIC	Banque internationale pour l'industrie et le commerce
CA	Commitment authorizations
CAA	<i>Caisse autonome d'amortissement</i>
CAPAN	Development Policy Analysis Unit of the National Assembly
CAS	Special appropriation account
CC	Court of Auditors
CFAF	CFA franc
CGAF	General financial administration account
CIMA	Inter-African Conference of Insurance Markets
CMS	Macrobudgetary framework
CNSS	National Social Security Fund
COFOG	Classification of general government functions
CONAFIL	National Local Finance Commission
CP	Payment appropriations
CSEF	Economic and Financial Programs Monitoring Unit
CSI	Supreme audit institute
CST	Treasury special account
CTD	Decentralized subnational governments
CTPNA	National plan for adaptation to climate change
CUT	Treasury single account
DGAE	Directorate General of Economic Affairs
DGB	Directorate General of Budget
DGC	General compliance declaration
DGCL	Directorate General of Subnational governments
DGML	Directorate General of Equipment and Logistics
DGPED	Directorate General of Government Holdings and Denationalization
DGPSIP	Directorate General of Public Investment Programming and Monitoring
DGTCP	Directorate General of Treasury and Public Accounting
DOB	Fiscal orientation discussion
DPBEP	Multiyear economic and budget programming paper
DPPD	Multiyear expenditure programming paper
DRB	Fiscal risk declaration

DSA	Debt Sustainability Analysis
EBO	Open budget survey
ECOWAS	Economic Community of West African States
EPA	Public administrative institution
EPIC	Public industrial and commercial institution
ETAF	Financial statements
FAD	Fiscal Affairs Department, IMF
FADEC	Development support fund for the municipalities
FGDR	Deposit Guarantee and Resolution Fund
FNEC	National Environment and Climate Fund
FNM	National Microfinance Fund
FNRB	National Pension Fund of Benin
FONCAT	Disaster Response Fund
FTE	Fiscal Transparency Assessment
GDDS	General Data Dissemination System
GDP	Gross domestic product
GFS	Government finance statistics
GFSM 1986	Government Finance Statistics Manual 1986
GFSM 2001	Government Finance Statistics Manual 2001
GIZ	<i>Gesellschaft für Internationale Zusammenarbeit (German cooperation authorities)</i>
IMF	International Monetary Fund
INSAE	National Statistics and Economic Analysis Institute
INTOSAI	International Organization of State Audit Institutions
IPAB	Parliamentary Institute of Benin
ISIN	International securities identification number
LFI	Initial Budget Law
LFR	Supplementary Budget Law
LOLF	Organic Law on Budget Laws
LR	Budget Review Law
MCVDD	Ministry of Living Environment and Sustainable Development
MEF	Ministry of Economy and Finance
MP	Government procurement
MPD	Ministry of Planning and Development
MTDS	Medium-term debt strategy
OECD	Organisation for Economic Co-operation and Development
PAC	Port Authority of Cotonou
PADME	Association for the promotion and support of the development of microenterprises
PAG	Government Action Program
PC2D	Growth and Sustainable Development Program
PIP	Public investment program
PLFI	Draft Initial Budget Law
PLFR	Draft Supplementary Budget Law

PLR	Draft Budget Review Law
PND	National development plan
PPP	Public-private partnership
RAP	Annual performance report
RAPEX	Budget execution report
REF	Economic and financial report
RELF	Budget Law execution report
RFA	Year-end report
RGCP	General Public Accounting Regulation
RTEB	Quarterly budget execution report
SBEE	<i>Société béninoise d'énergie électrique</i> (Electricity company of Benin)
SDG	Sustainable Development Goals
SFD	Decentralized financial systems
SONEB	<i>Société nationale des eaux du Bénin</i> (National water company of Benin)
TOFE	Table of government financial operations
UNACEB	Government Budget Control and Assessment Analysis Unit
UPF	Fiscal Policy Unit
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union
WRI	World Risk Index

PREFACE

Following a request from Romuald Wadagni, Minister of State, Ministry of Economy and Finance of Benin, a team from the Fiscal Affairs Department (FAD), International Monetary Fund (IMF) conducted a Fiscal Transparency Assessment (FTE). The mission was conducted entirely on a remote basis during June 28–July 19, 2021. The mission was comprised of Sailendra Pattanayak (Head of Mission, FAD), Majdeline El Rayess, Nicoletta Feruglio, Bruno Imbert, and Abdoulahi Mfombouot (FAD), Biaka Tedang Djoret (Resident Advisor, Regional Technical Assistance Center for West Africa—AFRITAC West), Adrien Tenne (Expert, FAD), and Ismael Zarco (Expert, Statistics Department). According to the rules defined in the *IMF Fiscal Transparency Code*, the team assessed (i) Benin’s financial information; (ii) financial forecasting and budgeting; and (iii) fiscal risk analysis and management. This assessment is based on the data available and shared by the authorities with the mission.

The mission held a feedback meeting with Romuald Wadagni. The Mission also held meetings with the following organizations and institutions: Directorate General of Budget (DGB), Directorate General of Economic Affairs (DGAE), Directorate General of Treasury and Public Accounting (DPCTCP), Directorate General of Government Holdings and Denationalization (DPCED), Directorate General of Materials and Logistics (DGML), Economic and Financial Program Monitoring Unit (CSPEF), Directorate General of Taxes (DGI), *Caisse Autonome d’Amortissement* (CAA), National Statistics and Demography Office (INSD), National Directorate of the Central Bank of West African States (BCEAO), Directorate General of Subnational Governments (DGCL), National Local Finance Commission (CONAFIL), National Social Security Fund (CNSS), Directorate General of Public Investment Programming and Monitoring (DGPSIP), Ministry of Water and Mining, Ministry of Energy, Ministry of Interior and Public Security, Ministry of Living Environment and Sustainable Development, National Timber Office (ONAB), National Environment and Climate Fund (FNEC), Court of Auditors, Parliamentary Institute of Benin (IPAB), *Société béninoise d’énergie électrique* [Electricity company of Benin] (SBEE), Port Authority of Cotonou, *Société nationale des eaux du Bénin* [National water company of Benin] (SONEB), and the non-governmental organizations Social Watch and ALCRER.

The mission would like to thank the authorities of Benin for their excellent cooperation in the conduct of this assessment and for the frank and open exchanges on all of the issues discussed. The mission is particularly grateful to Hermann Orou Takou and Elvis Danhoumè for their support. Last, the mission would like to express its special thanks to Younes Zouhar, IMF Resident Representative in Benin, and Joseph Houessou from the Office of the Resident Representative for their assistance and facilitation of the meetings.

EXECUTIVE SUMMARY

This report provides an evaluation of fiscal transparency practices (FTE) in Benin according to the standards defined by the IMF's *Fiscal Transparency Code*. The evaluation focuses on 36 principles covering three pillars of the Code: (I) fiscal reporting; (II) fiscal forecasting and budgeting; and (III) fiscal risk analysis and management. To take account of different levels of institutional capacity in each country, the Code distinguishes three levels of practices for each principle: basic, good, and advanced. A practice is considered "not met" if it has not met the Code's requirements for basic level.

Overall, Benin demonstrates better results in comparison with countries of similar income levels and institutional capacity that have been subject to an FTE (see Table 0.1 and Box 0.1). Of the 36 principles assessed according to the standards established by the Code, almost half are at the good (12 practices) or advanced (five practices) levels in Benin. Twelve practices received basic ratings, while five were considered not met. In light of Benin's specific context, two principles of the Code, relating to historical revisions and natural resources, were considered not applicable and therefore were not assessed. Benin's strengths are concentrated primarily in fiscal forecasting and budgeting practices, followed by fiscal reporting practices. Fiscal risk analysis and management practices require an acceleration of the reforms that are already underway and a consolidation of the efforts that have been undertaken so far.

Fiscal Reporting

The efforts of the Beninese authorities in recent years have led to improved quality and dissemination of fiscal and financial information. Most of the practices under Pillar I are good or basic, one practice is advanced, and two practices are not met. Benin's strengths include the publication of: (i) annual and in-year reports on budget execution that provide an overview of operations related to the central government budget; (ii) financial reports that present information according to economic, administrative, functional, and program classifications in accordance with international standards; and (iii) budget execution reports of which the periodicity and timeliness have further improved. In addition, work is being undertaken to develop a Table of Government Financial Operations (TOFE), according to the standards of the Government Finance Statistics Manual (GFSM) 2001/2014, to broaden the coverage of financial data and to implement accrual accounting. Finally, the ongoing efforts to modernize the external audit function will help to align it with international standards in the near future.

However, there is still scope for progress in the preparation and publication of financial data, particularly in the area of fiscal statistics. In 2019, Benin's public sector consisted of 303 institutional units. Total public sector expenditure in 2019 represented 18.2 percent of GDP, including 15.6 percent of GDP for the central government (see Table 0.2). While the financial data, particularly flows, are available for the different subsectors, these data are scattered and not consolidated. The institutional coverage of the TOFE is limited to the budgetary central government and the TOFE focuses only on the production of an operations statement. There is no report that provides an overview of at least the government's financial balance sheet. The

report suggests the preparation and dissemination of a financial balance sheet before the full migration to accrual accounting and development of a comprehensive balance sheet. This exercise can be carried out with the existing information, although it may be approximate and incomplete. The Court of Auditors is currently not in a position to provide a “true and fair view” opinion on the government accounts, as it has yet to move to a certification of accounts pending the preparation of financial statements on an accrual basis.

Fiscal Forecasting and Budgeting

Benin has made substantial progress in transparency of fiscal forecasting and budgeting, and most practices are good or even advanced. There are a number of strengths: (i) the general government budget covers all central government operations and comprehensive budget documentation is disseminated; (ii) three-year macroeconomic and macrobudgetary outlooks provide a framework for annual budget preparation; (iii) major investment projects are subject to well established transparent procedures for analysis, selection, budgeting, and monitoring, although there is scope for further improvement in this area; (iv) fiscal policy is firmly anchored in the convergence criteria established by the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) and is subject to comprehensive monitoring; and (v) the public is informed of the impacts of budget policies with specialized documentation that is adapted to the audience and released in a timely manner.

Building on these strengths, the budget process should be reinforced to further improve fiscal transparency. In particular, the ongoing and planned reforms should focus on more comprehensive macroeconomic projections and their underlying assumptions, a strengthened mechanism for independent evaluation of the government’s economic and fiscal forecasts, further deepening of the practice of reconciling successive vintages of forecasts, and harmonizing performance monitoring reports and generalizing their use in each major area of government intervention.

Fiscal Risk Analysis and Management

While fiscal risk analysis and management practices are mixed, the authorities demonstrate a proactive approach to further improve transparency in this area. The majority of the practices are at the basic (6) and good (2) levels, while one practice is not applicable and three practices are not met. Benin is facing significant macroeconomic risks and is sensitive to international macroeconomic developments. For several years, the authorities have made significant efforts to analyze the main fiscal risks in the context of the annual budget preparation exercise. These efforts have culminated in the publication of a fiscal risk analysis report, which was annexed to the 2021 Draft Budget Law. Extensive documentation with data and information on specific risks is also available online.

The existing elements provide a good basis for continuing and consolidating the ongoing efforts to bring Benin up to the level of international best practices in this area.

Mechanisms for identifying and analyzing fiscal risks are still being developed and need to be consolidated. The analyses presented in the fiscal risk report are still mainly qualitative and need to be better articulated. The analysis of certain risks (such as government investment in public

corporations) should be more comprehensive and the quantification of risk exposures and their fiscal impacts should be expanded to cover all types of fiscal risks. There is also scope for improvement in data disclosure: actuarial projections prepared for the social security funds and stress tests for institutions in the financial sector are examples of existing documents that could be published. Finally, further strengthening of the administrative organization and the legal framework would facilitate the monitoring of certain risks and their more effective supervision.

Main Recommendations

Based on this evaluation, the report proposes seven main recommendations aimed at further strengthening fiscal transparency practices in Benin. These recommendations, several of which are within reach in the short term, are accompanied by an action plan (Annex I). The main recommendations are as follows:

- The coverage, production, and dissemination of government finance statistics should be improved (*Recommendation 1.1*);
- The presentation and external audit of the government's financial accounts and the time frame for disseminating audit certification should be improved (*Recommendation 1.2*);
- The process of strengthening the credibility of the fiscal and budget forecasts – both multiyear and annual – of the government should be accelerated (*Recommendation 2.1*);
- The information and analyses included in budget programming documents and budget reports should be enhanced (*Recommendation 2.2*);
- The publication of fiscal and budgetary data should be more comprehensive to further improve transparency and facilitate fiscal risk analysis (*Recommendation 3.1*);
- Quantitative analysis of fiscal risks should be expanded and generalized to move towards international best practices (*Recommendation 3.2*);
- The institutional and legal framework for monitoring fiscal risks should be strengthened (*Recommendation 3.3*).

The rest of this report provides a detailed evaluation of Benin's practices with regard to the three pillars of the IMF's *Fiscal Transparency Code*: Chapter I assesses the coverage, timeliness, quality, and integrity of fiscal reporting; Chapter II assesses the comprehensiveness, orderliness, policy orientation, and credibility of the fiscal forecasts and budgets; and Chapter III assesses the practices related to the analysis and management of fiscal risks. Table 0.1 presents a summary of the evaluation against the standards defined by the Code, and Table 0.2 presents an estimate of the financial overview of the public sector in Benin for the 2019 fiscal year.

Table 0.1. Benin: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting and Budgeting	III. Fiscal Risk Analysis and Management
I.1.1. Coverage of Institutions	II.1.1. Budget Unity	III.1.1. Macroeconomic Risks
I.1.2. Coverage of Stocks	II.1.2. Macroeconomic Forecasts	III.1.2. Specific Fiscal Risks
I.1.3. Coverage of Flows	II.1.3. Medium-Term Budget Framework	III.1.3. Long-Term Fiscal Sustainability Analysis
I.1.4. Coverage of Tax Expenditures	II.1.4. Investment Projects	III.2.1. Budgetary Contingencies
I.2.1. Frequency of In-Year Reporting	II.2.1. Fiscal Legislation	III.2.2. Asset and Liability Management
I.2.2. Timeliness of Annual Financial Statements	II.2.2. Timeliness of Budget Documents	III.2.3. Guarantees
I.3.1. Classification	II.3.1. Fiscal Policy Objectives	III.2.4. Public-Private Partnerships
I.3.2. Internal Consistency	II.3.2. Performance Information	III.2.5. Financial Sector Exposure
I.3.3. Historical Revisions	II.3.3. Public Participation	III.2.6. Natural Resources
I.4.1. Statistical Integrity	II.4.1. Independent Evaluation	III.2.7. Environmental Risks
I.4.2. External Audit	II.4.2. Supplementary Budget	III.3.1. Sub-National Governments
I.4.3. Comparability of Fiscal Data	II.4.3. Forecast Reconciliation	III.3.2. Public Corporations

Legend

LEVEL OF PRACTICE	SCORE				
	Not applicable	Not met	Basic	Good	Advanced

Table 0.2. Benin: Summary of the Public Sector Financial Situation, 2019
(Percentage of GDP)

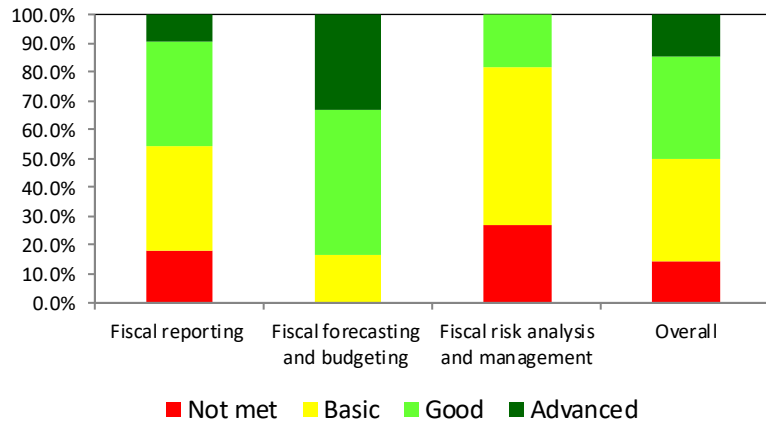
	General Government						Public Corporations			Consolidation	Public sector
	Central government				Local governments	Consolidated general government	Nonfinancial	Financial	Central bank		
	Budgetary	Extrabudgetary	Social Security Fund	Consolidated central government							
Transactions											
Revenue	12.9	3.3	1.9	15.8	1.1	16.2	4.6	na	0.5	-1.8	19.5
Expenditure	14.6	1.8	1.5	15.6	0.8	15.7	3.9	na	0.4	-1.8	18.2
Charges	10.7	0.6	na	10.2	0.4	10.0	2.2	na	na	-0.1	na
Net investment in nonfinancial assets	3.9	1.2	na	3.9	0.4	4.2	1.7	na	na	-1.7	na
Funding capacity/requirement	-1.7	1.5	0.4	0.2	0.3	0.5	0.7	na	0.1	0.0	1.3
Outstanding balance											
Assets	na	na	6.8	90.3	9.6	99.3	11.5	3.1	15.5	-3.8	125.6
Nonfinancial	na	na	0.2	77.2	8.6	85.8	7.4	0.0	0.4	0.0	93.8
Financial	7.0	7.3	6.6	13.1	1.0	13.5	4.1	3.1	15.1	-3.8	32.0
Liabilities, of which	46.5	1.2	27.9	67.8	0.0	67.2	5.5	2.2	15.1	-3.8	86.1
Borrowing	26.9	0.0	0.0	26.9	0.0	26.9	4.4	0.0	0.0	0.0	31.3
Securities	14.4	0.0	0.0	14.4	0.0	14.4	0.0	0.0	0.0	0.0	14.4
Net value	na	na	-21.1	22.5	9.6	32.1	6.0	0.9	0.4	0.0	39.5
Net financial value	-39.5	6.1	-21.3	-54.7	1.0	-53.7	-1.4	0.9	0.0	0.0	-54.1

Source: Data from the authorities; estimates and calculations by the mission.

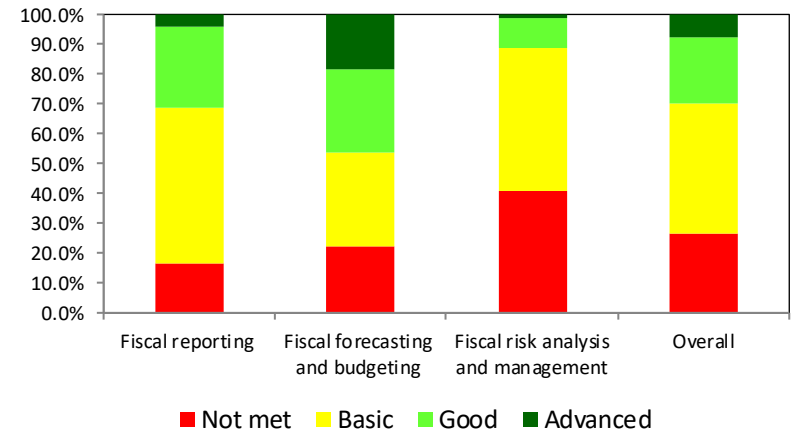
- 1) Revenue and expenditure: The data on budgetary government revenue and expenditure derive from the table of government financial operations (TOFE), while this information is from the multiannual economic and budget programming paper (DPBEP) for extrabudgetary entities, the National Social Security Fund (CNSS), subnational governments, and nonfinancial public corporations. Last, for the national branch of the Central Bank of West African States (BCEAO), the information is obtained from the 2019 BCEAO financial statements.
- 2) Nonfinancial assets: The data on nonfinancial assets of the central government derive from the Public Investment Management Assessment (PIMA) report. For subnational governments, this information is obtained from the trial balance of the municipalities. For nonfinancial public corporations, the information is obtained from the financial statements of the nine largest public corporations. These corporations include, inter alia, Société béninoise d'énergie électrique (SBEE), for which the 2019 financial statements were estimated based on the financial statements from previous years as this information was not available.
- 3) Financial assets: There are many sources of information for general government: the monthly statistics bulletin, the report on government holdings of the Directorate General of Government Holdings and Denationalization (DGPED), the government trial balance, and the mission's estimated calculations. For public corporations and the national branch of the BCEAO, the same source of information as indicated above was used.
- 4) Liabilities: for general government, the debt management report of the Caisse Autonome d'Amortissement (CAA), the government trial balance for other liability items, and actuarial studies from the CNSS. Last, for public corporations and the national branch of BCEAO, the same source of information as indicated above, in addition to the information from the CAA debt management report, were used.

Box 0.1. Results of Benin's Fiscal Transparency Evaluation in Comparison with Other Fiscal Transparency Evaluations

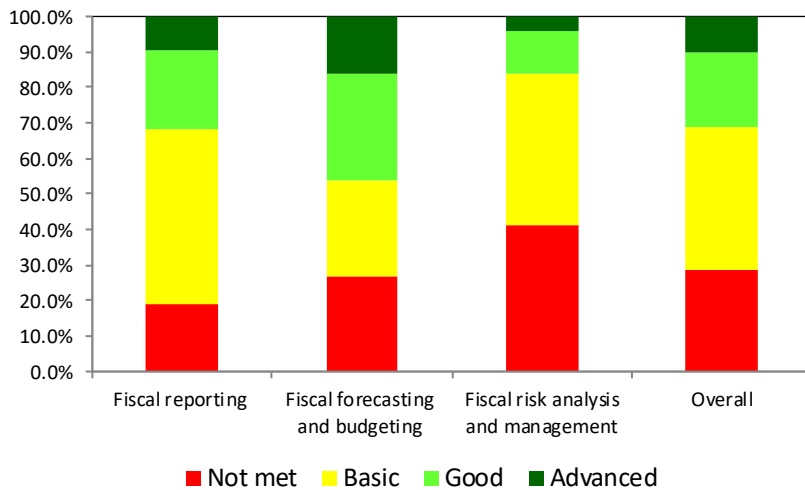
**Assessment for Benin
(percentage of overall results for each pillar)**



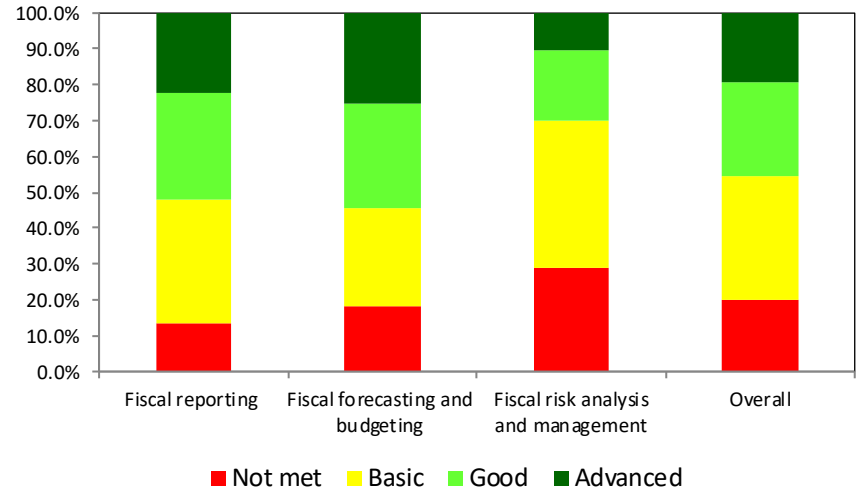
**Assessment for Sub-Saharan African countries (n=6)
(percentage of overall results for each pillar)**



**Assessment for low-income developing countries (n=9)
(percentage of overall results for each pillar)**



**Assessment for all countries (n=32)
(percentage of overall results for each pillar)**



Source: Calculations by the mission.

I. FISCAL REPORTING

Fiscal reporting should provide a comprehensive, relevant, timely, and reliable overview of the financial position and performance of the general government sector.

1. This chapter assesses the quality of Benin's fiscal reporting according to the standards defined by the IMF Fiscal Transparency Code. This pillar covers four dimensions:

- a. Coverage of institutions, stocks, and flows;
- b. Frequency and timeliness;
- c. Quality of the fiscal information;
- d. Integrity and comparability of the fiscal information.

2. Fiscal information in Benin is included in various statistical and financial reports produced by the different units of the central government. However, some reports are not published. There are no reports that provide a complete view of the consolidated financial data for either the general government or the public sector. Table 1.0 provides a detailed list of financial reports, including the following:

- Quarterly budget execution reports (RAPEX), that provide information on budget execution of revenue and expenditure, balance of budget outturn, and cash operations.
- The Annual Report on budget execution, that analyzes mobilization of revenue and execution of government expenditure and explains any discrepancies between the forecasts (initial budget) and outturn. This report also presents expenditure execution according to the administrative, economic, and functional classifications.
- The table of government financial operations (TOFE) is a government finance statistics (GFS) table that uses the methodology of the *1986 Government Finance Statistics Manual (GFSM 1986)* to provide an overview of government financial operations in terms of revenue, expenditure, and financing.
- The General Financial Administration Account (CGAF), that presents the result of budget operations, the balance of cash transactions, a description of authorizations under the budget law, and an illustration of the key annual balances (overall fiscal balance, basic budget balance, and balance of cash operations).
- The Tax Expenditure Evaluation Report, that provides information related to tax expenditure by presenting data on tax system waivers and an assessment of tax expenditure relating to these measures.
- The Debt Management Report, that presents the preparation of the debt plan for the year, showing external and domestic financing. It also presents the structure of total public debt with various breakdowns, public debt service, and certain contingent liabilities such as sovereign guarantees from the government, and public debt.

- The Local Finance Summary, that is produced each year as an annex to the draft budget law, providing an update on domestic and external resources allocated to the municipalities and credits allocated to devolved services, such as support to the municipal governments.

Table 1.0. Benin: List of Fiscal Reports

REPORT	RESPON-SIBLE UNIT	COVERAGE			ACCOUNTING		PUBLICATION		
		Institu-tions	Flows	Stocks	Basis	Classi-fication	Fre-quen-cy	Duration/Date	Online (Yes or No)
INFRA-ANNUAL REPORTS									
TOFE	Directorate General of Economic Affairs (DGAE) Economic and Financial Program Monitoring Unit (CSPEF)	ACB	Revenue/Expendi-ture/Fi-nancing		Modi-fied cash	GFSM 86	M	90 d	Yes
Quarterly budget execution reports (RTEB/RAPEX)	Directorate General of Budget (DGB)	AC	Revenue/Expendi-ture/Cash		Cash	Nat	Q	90 d	Yes
Midyear presentation of budget revenue and expenditure	DGB	AC	Revenue/Expendi-ture/Cash		Cash	Nat	S	90 d	Yes
Quarterly report on the economic situation	DGAE	ACB	Revenue/Expendi-ture		Cash	Nat	Q	90 d	Yes
Quarterly statistical bulletin on public debt	CAA	SP	Issues/Amortiza-tion/Stock	Debt	Cash	Nat	Q	30 d	Yes
ANNUAL REPORTS									
TOFE	DGAE CSPEF	ACB	Revenue/Expendi-ture/Fi-nancing		Modif-ied cash	GFSM 86	A	9 m	Yes
Government budget execution report	DGB	ACB	Revenue/Expendi-ture/ Cash		Cash	Nat	A	3 m	Yes
Economic and financial report	DGAE	ACB	Revenue/Expendi-ture		Cash	Nat	A	December year N-1	Yes
Multiyear economic and budget programming paper	DGB	SP	Revenue/Expenditu-re/Finan-cing		Cash	Nat	A	December year N-1	Yes
Report Introducing the Budget Law	DGB	ACB	Revenue/Expendi-ture		Cash	Nat	A	December year N-1	Yes
Budget Review Law	DGB	AP	Revenue/Expendi-		Cash	Nat	A	1 year	No

REPORT	RESPONSIBLE UNIT	COVERAGE			ACCOUNTING		PUBLICATION		
		Institutions	Flows	Stocks	Basis	Classification	Frequency	Duration/Date	Online (Yes or No)
			ture/Financing						
General Financial Administration Account (CGAF)	DGCTP	ACB	Revenue/Expenditure/Financing		Cash	Nat	A	1 year +	No
Central government trial balance	DGCTP	ACB	Revenue/Expenditure/Financing		Cash	Nat	A	1 year +	No
Tax expenditure evaluation report	UPF/DGI/DGDDI/MFRE	ACB	Tax expenditure		Cash	Nat	A	December of previous year	Yes
Report on Budget execution	Court of Auditors	ACB	Revenue/Expenditure/Financing		Cash	Nat	A	1 year +	Yes (with delay)
General compliance declaration	Court of Auditors	ACB	Revenue/Expenditure/Financing		Cash	Nat	A	1 year +	Yes
Local finance summary	CONAFIL	CL	Revenue/Expenditure		Cash	Nat	A	1 year +	Yes
Audit on management of municipality development support fund resource	CONAFIL	CL	Revenue/Expenditure		Cash	Nat	A	1 year +	Yes
Report on government holdings	DGPED	ACB		Assets	Cash	Nat	A	n/a	No
Debt management report	CAA	SP	Debt structure/sustainability	Debt	Cash	Nat	A	1 year +	Yes

Source: Mission.

N.B.: ACB: Budgetary central government; AC: Central government; ACE: Extrabudgetary central government; AP: General government; SP: Public sector; CL: Subnational governments; M: Monthly; Q: Quarterly; A: Annual; CS: Social security funds; CN: National accounting; n/a: Not available. Mechanism: Cash, Modified cash; Accrual.

1.1. Coverage of Fiscal Information

1.1.1. Coverage of institutions	Not met
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3. In 2019, Benin's public sector consisted of 303 institutional units. The Ministry of Economy and Finance (MEF) keeps a list of institutional units broken down by type of institution (see Table 1.1). This list includes:

- **Budgetary central government:** Ten constitutional bodies (Presidency of the Republic, National Assembly, etc.); 22 ministries; 12 devolved departments; the Caisse Autonome d'Amortissement (CAA); the National Pension Fund of Benin (FNRB); and five special appropriation accounts (CAS).
- **Extrabudgetary central government:** 148 Public administrative institutions (EPAs).
- **Local government:** 77 municipalities.
- **Social Security Fund:** National Social Security Fund (CNSS).
- **Public corporations:** 24 nonfinancial public corporations(public industrial and commercial institutions—EPICs) and two financial public corporations(*Banque internationale pour l'industrie et le commerce*—BIIC and the national branch of the BCEAO).

Table 1.1. Benin: Institutional and Financial Composition, 2019
(Percentage of GDP)

	Number of entities	Revenue	Expenditure	Net balance	Intra-sectoral expenditure of the public sector	Net expenditure	Percentage of net expenditure
Public sector	303	19.5	18.2	-1.3	0.0	18.2	100.0
General government	277	16.2	15.7	0.5	0.0	15.7	86.4
Central government	200	15.8	15.6	0.2	0.0	15.6	85.9
Budgetary	51	12.9	14.6	-1.7	2.3	12.3	67.7
Extrabudgetary	148	3.3	1.8	1.5	0.0	1.8	10.0
Social security fund	1	1.9	1.5	0.4	0.0	1.5	8.2
Local government	77	1.1	0.8	0.3	0.7	0.1	0.5
Central bank*	1	0.5	0.4	0.1	0.0	0.4	2.2
Nonfinancial public corporations	24	4.6	3.9	0.7	1.8	2.1	11.4
Other financial public corporations**	1	NA	NA	NA	0.0	NA	NA

Source : Authorities and calculations by the mission.

* Central Bank = national branch of the BCEAO

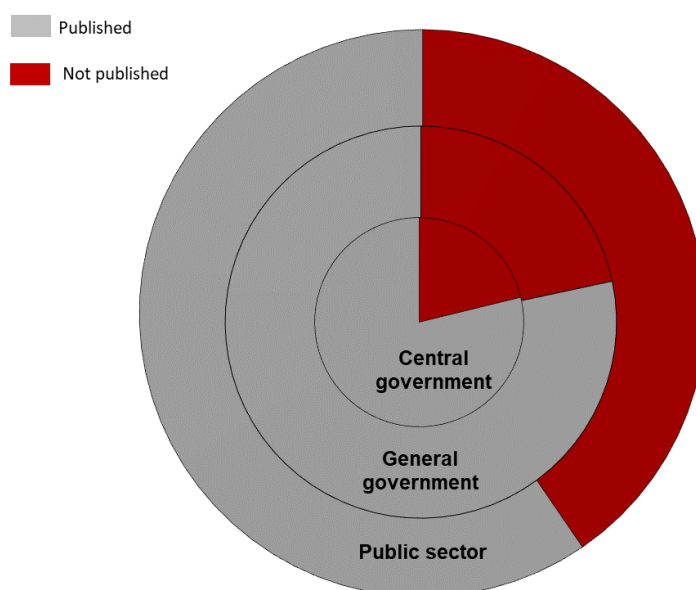
** Other financial public corporations = at the date this table was prepared, the data on financial public corporations were not available.

4. While financial data, and particularly flows, are available for the different subsectors, these data are scattered and not consolidated. Annual and quarterly budget reports present financial data from the budgetary central government, including the data on the FNRB, CASs, and the CAA. This coverage is also reflected in the TOFE, that presents the statistical data. By contrast, the multiannual budget and economic programming paper (DPBEP) has a broad scope of coverage and presents financial information, that includes, in addition to the fiscal data, revenue and expenditure of extrabudgetary entities, the CNSS, subnational governments, and nonfinancial public corporations. However, this information is not

consolidated and cannot be used to determine the size of each subsector of the public sector. No information is published for financial public corporations.

5. Public sector expenditure represented a total of 18.2 percent of GDP in 2019, in which central government accounted for 15.6 percent of GDP. In this connection, budget units are still major players in fiscal policy execution with approximately 14.6 percent of GDP in expenditure. Expenditure of the subnational governments and social security is limited, constituting 0.8 and 1.5 percent of GDP, respectively. However, the presentation of this information is dispersed in the budget documentation, while the government finance statistics include only budgetary central government (see Figure 1.1).

Figure 1.1. Benin: Public Sector Coverage in Statistical Reports, 2019
(Percentage of total expenditure)



Source: Calculations by the mission.

6. Work is in progress to expand the coverage of statistical data on government finance. Directive 10/2009/CM/UEMOA related to the TOFE requires the production of a TOFE for general government based on the *Government Finance Statistics Manual 2001/2014* (GFSM 2001/2014). Work is currently in progress on the collection of source data, and more specifically data related to extrabudgetary entities and subnational governments. Production of this new TOFE will begin in 2022 with the preparation of a TOFE for budgetary central government based on GFSM 2001/2014 and the scope of coverage will be expanded gradually to reflect the availability of the data.

1.1.2. Coverage of stocks	Not met
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7. Benin does not meet the basic level of practice required by the financial reports covering treasury operations, bank deposits, and all debts. Although the debt data are published, the dissemination of fiscal information does not include the stock of currency and bank deposits. In fact, the CAA publishes a quarterly statistical bulletin on public debt covering traditional debt instruments, including loans and debt securities. However, this bulletin does not reflect other government debts as defined by GFSM 2001/2014, including accounts payable, claims toward social security, deposits of public entities held within the Treasury, appropriations relating to letters of comfort, and actuarial liabilities for civil servants' and military staff pensions. Where currency and bank deposits are concerned, although certain data exist, particularly in the Government trial balance (BGCE), this information is not published. The DGPEP has information on the stock of equity that the government of Benin holds in 14 companies, although it is partial, with no explanations, at historic cost of acquisition.

8. A significant proportion of Benin's balance sheet is not assessed in the reports that are published. According to the mission's calculations, the estimated net worth of the public sector is positive, at approximately 33 percent of GDP (see Figure 1.2) with an estimate of public sector assets and liabilities of 126 percent and 86 percent of GDP, respectively, in 2019. In fact, as indicated above, only the stock of public debt of the general government of approximately 41.9 percent of GDP, is published (see Figure 1.3). The central government contributes significantly to this result, with gross debt of 41.4 percent of GDP. The debt reports that are disseminated also do not include information on payment arrears and actuarial liabilities related to pensions of civil servants. In terms of actuarial pension liabilities, there are not yet any studies, methods, or methodologies for their calculation and estimation.¹ However, some of the existing information in the various budget and accounting documents can be used to prepare a financial balance sheet as a first step (Annex II).

¹ The latest actuarial study for the National Pension Fund of Benin (FNRB) dates back to 2009.

Figure 1.2. Benin: Public Sector Net Worth in Selected Countries (Percentage of GDP)

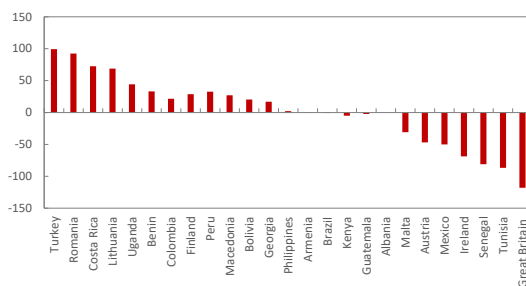
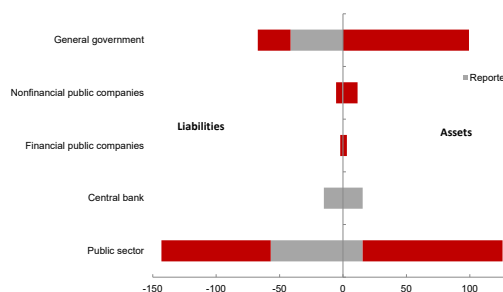


Figure 1.3. Benin: Public Sector Balance Sheet Coverage in Financial Reports, 2019 (Percentage of GDP)



Source: Calculations by the mission.

9. Reforms are in progress for the implementation of an accrual accounting system, so that the government balance sheet can be prepared. The current BGCE is not designed on an accrual basis, as cash-basis accounting is currently used. Accordingly, it cannot be used to reconstitute all outstanding asset and liability balances. Although it can be used to track certain balance sheet items, the financial information in the BCGE is still partial and is not covered in a published report. To meet the accounting standards as provided in Decree 2014-571 of October 7, 2014,² a reform plan is being implemented to modernize the central government accounting system. The chart of accounts has been updated and work is in progress to prepare the legislative texts in connection with the updating of the accounting standards. In addition, the financial information system is being overhauled to adapt it to the new chart of accounts and to cover the migration to accrual accounting with an opening balance sheet planned for January 2022.

1.1.3. Coverage of flows	Basic
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10. The TOFE presents financial data on revenue, expenditure, and financing. This information is produced primarily on a modified cash basis, in which revenue and financing are presented on a cash basis and expenditure is presented on payment order basis (see Table 1.2). The BGCE is not the only source of data for conducting this exercise. As indicated above, the TOFE is compiled only for the budgetary central government. Flows of financing transactions are

² This decree establishes the fundamental rules governing execution of public budgets, accounting, financial operations control, and management of money, assets, and property owned by or entrusted to the government and public administrative institutions.

presented on a net basis by type of financing (bank or nonbank), rather than being broken down by instrument with an itemization of flows of assets and liabilities.

Table 1.2. Benin: Key Aggregates in the 2016-2019 TOFE
(In billions of CFAF)

In billions of CFAF	2016	2017	2018	2019
Total Revenue	745.7	944.4	1,028.6	1,088.0
Tax	641.1	712.8	811.4	893.3
Nontax	104.6	231.6	217.2	194.8
Total expenditure and net lending	1,086.3	1,318.1	1,305.9	1,225.9
Primary current expenditure	717.8	713.8	731.8	764.8
Interest	63.3	106.4	126.0	134.6
Capital expenditure	299.6	491.5	445.6	330.4
Net lending	5.5	6.4	2.5	-3.9
Overall deficit (payment order basis)	-340.6	-373.7	-277.3	-137.9
Change in arrears	-1.4	-5.3	-0.4	0.0
Reconciliation payment	0.8	14.7	-3.7	-7.3
Overall deficit (cash basis)	-341.3	-364.4	-281.4	-145.2
Total financing	341.3	364.4	281.4	145.2
Domestic	224.2	185.9	-51.4	-304.3
External	117.0	178.5	332.8	449.5

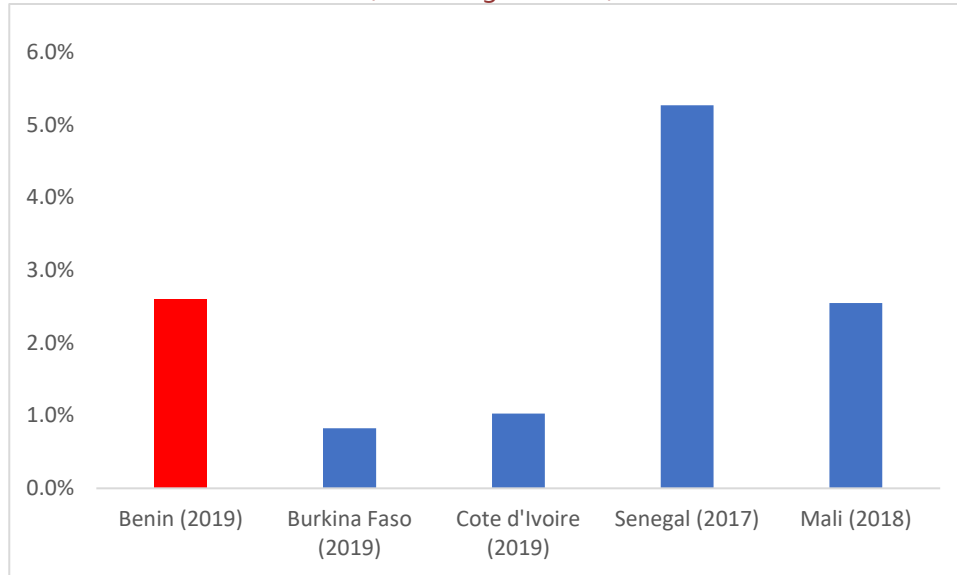
Source: FINSTAT 2020, DGAE.

11. Coverage of economic flows is not comprehensive in the general and budget accounting system or in the government finance statistics. The absence of accrual accounting prevents nonmonetary flows from being recorded (accrued interest not yet due, transactions in kind, and fixed capital consumption). Other economic flows (holding gains/losses and other changes in volume) are also not recorded, which means that stocks and flows cannot be fully integrated. However, the availability of public debt in foreign currency would provide information on holding gains/losses on debt in foreign currency.

1.1.4. Coverage of tax expenditures	Good
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12. The Tax Policy Unit produces an annual report on the assessment of tax expenditure, that is appended to the draft budget law. Assessment reports are appended with a definition and summary of the methodological approach used in the evaluation of tax expenditure. The evaluation for 2018 and 2019 is based on a reference tax system. Tax expenditure was estimated at 2.6 percent of GDP in 2019 and was within an average margin as compared with other countries in the West African Economic and Monetary Union (WAEMU) area (see Figure 1.4). In addition, the report provides an assessment of tax expenditure by levy and tax, beneficiary, objective, and ministry. The assessment covers the entire tax system in Benin. Performance measures have been established to monitor the achievement of the objectives of these tax expenditure items and to guide policies aimed at controlling tax expenditure. Two evaluation studies on tax exemptions are in progress with the Economic Community of West African States Commission.

Figure 1.4. Benin: Regional Comparison of Revenue Losses in Connection with Tax Expenditure
(Percentage of GDP)



Source: Report on tax expenditure and calculations by the mission.

13. The practice of assessing and managing tax expenditure has improved substantially during recent years. The IMF Technical Assistance Mission (January 2018) supported this progress. A methodological guide for preparing tax expenditure was introduced in June 2020. The percentage of measures evaluated (see Table 1.3), that was 53 percent for indirect taxes and only 13 percent for direct taxes, increased to 90 percent and 22 percent, respectively, as a result of the establishment of the matrix showing the complete inventory of waivers and the definition of a comprehensive tax reference system. However, it is difficult to conclude that there is a trend to bring tax expenditure under control. Although tax expenditure is expected to decline from 2.6 percent of GDP 2019 to 1.9 percent of GDP in 2023, substantial discrepancies have always been observed between the forecasts and outturn (2.6 percent, as against 1.6 percent of GDP for 2019 outturn and 2.2 percent as against 1.4 percent of GDP for 2020 outturn). In addition, the increase in the scope of tax expenditure assessments and the steady improvement in projection methods may also justify future discrepancies.

Table 1.3. Benin: Status of Tax Expenditure by Type of Tax, Fee, and Duty for the Period 2017-2019

	2017			2018			2019		
	Measures identified	Measures evaluated	Share (%)	Measures identified	Measures evaluated	Share (%)	Measures identified	Measures evaluated	Share (%)
Direct government taxes	175	23	13.1	175	36	20.6	170	37	21.8
Indirect taxes	51	27	52.9	51	36	70.6	51	46	90.2
Customs and indirect duties	87	84	96.6	87	84	96.6	77	76	98.7

Source: Tax Expenditure Reports for 2020 and 2021.

1.2. Integrity and Timeliness of the Fiscal Information

1.2.1. Frequency of in-year reporting	Basic
----------------------------------------------	--------------

14. A number of quarterly and semiannual reports on government finance are produced and published in Benin. Regarding the monitoring of the government budget execution, the Directorate General of Budget (DGB) produces and publishes the RAPEX, a quarterly report with a maximum lag of 90 days after the end of the quarter.³ It also produces a quarterly report on budget law execution that presents information according to administrative, functional, and economic cross classifications. Finally, the DGB presents a semiannual budget execution report (the Midyear Report) with a lag of three months. The Directorate General of Economic Affairs (DGAE) publishes a quarterly report on economic conditions with a lag of 90 days. For domestic and foreign debt, the CAA produces and publishes a quarterly statistical bulletin with a lag of 30 days after the end of the period. The report also contains the amount of guarantees issued by the government and an analysis of the government's fiscal risks. To move to a good level of practice, quarterly reports must be published with a lag not exceeding 30 days after the end of the reference period. In this context, the authorities are working to improve the flow of information so that the quarterly RAPEX can be published with a lag of 30 days.

1.2.2. Timeliness of annual financial statements	Basic
---------------------------------------------------------	--------------

15. The annual government accounts and their production lags with the Court of Auditors (CC) are clearly established in the national regulations. Box 1.1 below specifies the composition of the annual government accounts as defined in Article 106 of Decree 2014-571 of October 7, 2014 on the General Regulation of Public Accounts (RGCP). These accounts must be

³ A citizen's version of this report is also published.

submitted to the Court of Auditors no later than June 30 of the fiscal year after the reference year.

Box 1.1. Composition of the Annual Accounts of the Government of Benin

The annual government accounts include **the general financial administration account and the financial statements:**

- The General Financial Administration Account (CGAF) includes:
 - **Trial balance;**
 - **Discussion of budget revenue;**
 - **Discussion of budget expenditure;**
 - **Discussion of operations posted to the treasury special accounts;**
 - **Discussion of operations in the income statements.**
- The financial statements (ETAF) include:
 - **Balance sheet;**
 - **Income statement;**
 - **Table of government financial operations (TOFE);**
 - **Cash flow table;**
 - **Appended statement.**

Source: RGCP.

16. By contrast, the publication date for the duly audited government accounts is less precise. Under Articles 53 and 66 of the Organic Law on Budget laws (LOLF), the Draft Supplementary Budget Law (PLR), accompanied, *inter alia*, by the general financial administration accounts (CGAF) and financial statements (ETAFs), as well as the general compliance declaration (DGC)⁴ and the budget law execution report (RELF) prepared by the Court of Auditors, are submitted to Parliament by the first day of the budget session opening after the year of budget execution. It is not clear whether the publication of the RELF and the DGC, reflecting the audit of the annual government accounts, must occur before the PLR is filed, or at the same time.

17. For the past three fiscal years, the audited accounts were published much later than 12 months from the end of the previous fiscal year. These accounts now consist only of the CGAF that accompanies the general administrative account, as the ETAFs cannot be produced until after the transition to accrual accounting in 2022. During this period, the RELF and DGC were published at the DGB's website, albeit with a delay (see Table 1.4). Although it is effectively justified by the outage of the Court of Auditors' website, this practice of having the Ministry of Finance publishing the Court of Auditors' documents might, from certain standpoints, entail some level of bias that could, *inter alia*, affect the Court of Auditors' independence in the discharge of its audit duties.

⁴ The DGC will be replaced beginning in 2023 with the certification of accounts, after the transition to accrual accounting scheduled for 2022.

Table 1.4. Benin: Filing Dates of the CGAF/CA with the Court of Auditors and Publication of the RELF and DGC for the Period 2018-2020

Publication dates and filing of documents	For 2018	For 2019	For 2020
Publication of the End-of-year RAPEX		May 27, 2020	June 29, 2021
Publication of the RELF	January 2020	January 2021	Pending publication
Publication of the DGC	January 2020	January 2021	Pending publication
Publication of the Annual Report of the Court of Auditors	Not produced	Not produced	Not produced

Source: Portal of the DGB-Ministry of Economy and Finance.

1.3. Quality of Fiscal Information

1.3.1. Classification	Advanced
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18. Fiscal reports are presented according to economic, administrative, functional, and program classifications, in accordance with international standards. The economic classification present in the TOFE is in accordance with *GFSM 1986*, while the budget nomenclature is based on the WAEMU standards. The functional classification observes the United Nations Classification of the Functions of Government (COFOG) and *GFSM 2001/2014*. The annex to the RAPEX provides expenditure execution according to the economic, administrative, and functional classifications. This annex should theoretically present budget execution according to the program classification (Annex III). However, since 2019, Annex III of the RAPEX has no longer been published at the DGB website. By contrast, the midyear report presents program execution on a commitment and payment order basis (see Table 1.5) and provides a cross presentation of the administrative and economic classifications. A bridge table illustrates developments in expenditure by functional classification based on the administrative classification data.

Table 1.5. Benin: Example of Presentation of Budget Execution by Program Classification, 2020

Budget program	Economic type	2020				
		Forecasts	Commitment-basis execution	Rate	Authorization-basis execution	Rate
Ministry of Energy	Staff (1)	267,993,000	13,996,500	50.00	133,996,500	50.00
Program I	ABS (2)	15,000,000	0	0.00	0	0.00
	Transfer (3)	238,000,000	53,823,000	22.61	0	0.00
	Total ordinary expenditure (4) = (1) + (2) + (3)	520,993,000	187,819,500	36.05	133,996,500	25.72
	Investment executed by government (5)	62,827,120,487	13,668,006,732	21.75	7,435,843,361	11.84
	Transfer, capital (6)	0			0	
	Total capital expenditure (7) = (5) + (6)	62,827,120,487	13,668,006,732	21.75	7,435,843,361	11.84
	Total P1 (8) = (4) + (7)	63,348,113,487	13,885,826,232	21.87	7,569,839,861	11.95

Source: 2020 Midyear Report.

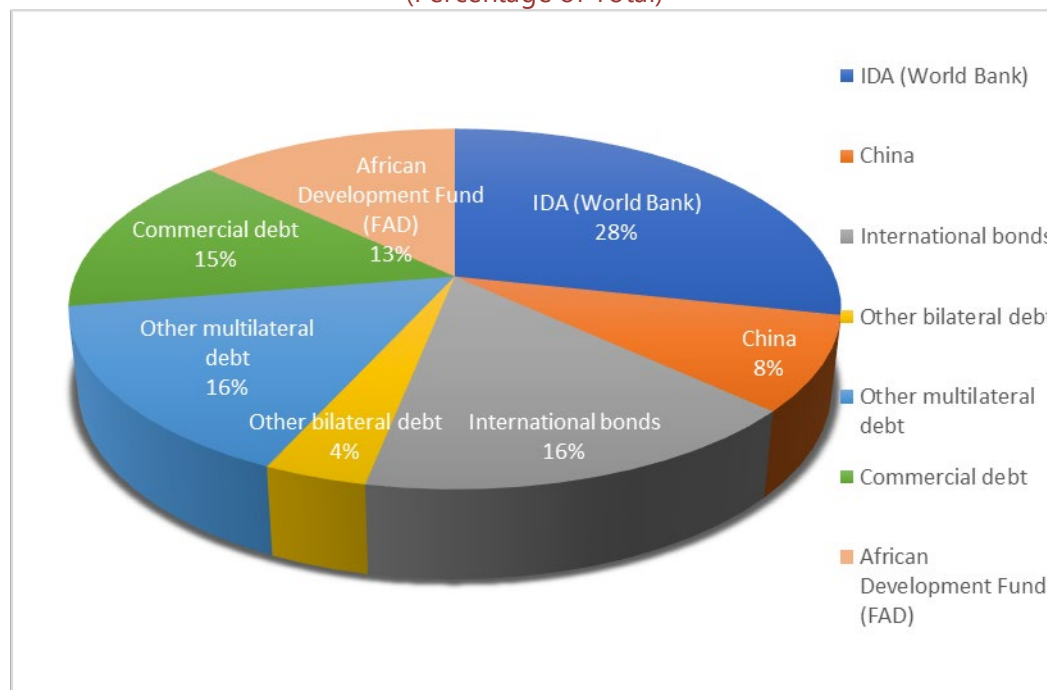
1.3.2. Internal consistency	Good
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19. Fiscal reporting includes two of the three reconciliations required by the *Fiscal Transparency Code*:

- **Reconciliation between the budget balance and financing:** The TOFE presents a general deficit on payment order basis that is subsequently adjusted with a series of operations, such as the change in arrears, payment during the complementary period to produce the overall deficit on a cash basis, that is theoretically equal to total financing. However, this estimate is still somewhat artificial, and accordingly, it leads to a residual (statistical gap) that is added to domestic financing in the other nonbank financing section.
- **Reconciliation between debt issued and held:** Although not fully detailed, two reconciliations are published between debt issued and debt held by creditors. Each year, the CAA publishes a debt management report with the structure of the stock of external debt by lender (see Figure 1.5). It also publishes a quarterly debt bulletin that presents both the outstanding balance and drawings made on an infra-annual basis. By contrast, the Securities Agency of the West African Monetary Union (WAEMU Securities), that supports the issuance of national debt securities in WAEMU countries, publishes in its quarterly statistical bulletin the stock of public securities issued by Benin, with the total amount, the date of issuance, maturity of the issuance, and the International Securities Identification Number (ISIN). In addition, the WAEMU requires the WAMU Securities Agency to produce a monthly report on the distribution of the holding of Benin Treasury Bills and Bonds on the secondary market, based on the information transmitted monthly by the authorized subscribers of these

securities (in particular, Treasury paper specialists).⁵ The WAEMU standards specify that it is the responsibility of the BCEAO National Office in Benin to disseminate this report broadly. In 2021, the authorities prepared a form to collect this information and are awaiting the responses from the data providers in order to prepare the report, although there is still no precise date for publication.

Figure 1.5. Benin: External Debt by Lender, 2019
(Percentage of Total)



Source: CAA and calculations by the mission.

20. The authorities prepare but have not published the reconciliation of financing and the change in the stock of debt. A framework for calculating the stock-and-flow adjustment, i.e., the difference between the change in the stock of debt and the deficit, should be provided with a breakdown between the change in the debt-to-GDP ratio according to the debt-generating flows identified, such as the primary deficit, automatic debt dynamics (interest rate and exchange rate effects), and residuals. The extent of this residual will determine the quality of the adjustment, that may derive from factors such as changes in the scope of the debt, debt relief, or reclassifications. The Benin authorities conducted an internal experimental exercise on the adjustment of debt stocks and flows. However, the results of this exercise have not been published.

⁵ Article 17 of Regulation 06/2013/CM/UEMOA on Treasury Bills and Bonds Issued by Auction or Syndication with the Assistance of the WAMU Securities Agency.

1.3.3. Historical revisions	Not applicable
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21. The practice of major and recurrent revisions of the table of government financial operations (TOFE) is not applied. In fact, the historical series are rarely reviewed. The aggregates may in fact be adjusted from time to time, but such adjustments are minimal and do not exceed 0.1 percent of GDP.

22. However, this practice will undergo a major change in the near future. When switching to accrual accounting, the current TOFE prepared based on GFSM 1986 will switch to a TOFE based on GFSM 2001/2014. This major change in methodology requires work to document changes and explain these variations. As part of the migration to the new TOFE, the authorities will also revise the historical data series. In this connection, it will then be essential for this memorandum to accompany the new version of the TOFE to provide the public with more clarification on the methodological changes and to explain the differences observed in the data.

1.4. Integrity of Fiscal Information

1.4.1. Statistical integrity	Good
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23. Responsibilities for the production and publication of statistical data are clearly established. Government finance statistics are produced by the Economic and Financial Program Monitoring Unit (CSPEF), that reports to the MEF, and real sector statistics are produced by the National Statistics and Demography Office (INStAD). The National Directorate of the BCEAO produces the balance of payments statistics as well as the financial and monetary statistics. All of these data are mostly compiled and disseminated in accordance with recognized international standards.⁶ In addition, the GDP-TOFE Committee⁷ has different responsibilities, such as overseeing production, analysis, and dissemination of coherent, reliable government finance statistics and production, analysis, and dissemination of the quarterly and annual national accounts to assist in preparing and interpreting the macroeconomic projections. The CSPEF provides the permanent secretariat for the GDP-TOFE Committee. The Committee is supported by three technical subcommittees: the Government Finance Statistics Subcommittee (SFP), the Real Sector Statistics and Short-Term Economic Analysis Subcommittee (SRAC), and the Macroeconomic and Budget Framework Subcommittee (CMB). However, meetings are irregular, and the members of the steering unit of the GDP-TOFE Committee are not effectively mobilized, even though ongoing reforms, adjustments, and a high degree of involvement on the part of the authorities are required to improve the statistics.

⁶ For real sector statistics, this involves the System of National Accounts 2008 (SNA 2008); for monetary statistics, the 2000 Monetary and Financial Statistics Manual; and for balance of payments statistics, the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM 6).

⁷ Instituted by Decree 99-223 of May 4, 1999, and reorganized by Amending decree 2018-131 of April 18, 2018.

24. Benin has joined the enhanced general data dissemination system (e-GDDS). To comply with the current dissemination system in terms of government finance statistics, Benin has undertaken to publish the annual TOFE for the central government with a lag of one quarter and the annual TOFE for general government with a lag of nine months. Unfortunately, these commitments are not yet being honored. In addition, the quarterly status of central government debt should be published with a lag of two quarters, which is not the case. For the dissemination of data via the Internet,⁸ Benin is committed to "present the economic and financial data and indicators derived from the projections from the macroeconomic model in the "key economic indicators," to expand the scope of the TOFE to include subnational governments and to create a website to enable publication of medium-term data and metadata." However, there is still no dissemination schedule for the TOFE data at the website. As it is managed by INStAD, the latter issues a pre-release schedule indicating the release dates for all statistics for which it is responsible. However, statistics that are not under the authority of INStAD (GFS, BP, and MSFM) are not included in this release schedule. By contrast, steps are already in progress at the INStAD to include, in this schedule published at the beginning of each year, all statistics from the National Statistics System of Benin, to support the updating of the National Data Summary Page (PNRD). Accordingly, the INStAD plans to publish a more inclusive pre-release schedule for regularization before the end of the third quarter of 2021.

1.4.2.	External audit	Basic
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25. The revised Constitution⁹ of Benin has elevated the Chamber of Auditors of the Supreme Court to a Court of Auditors, which has the powers of a supreme fiscal audit institution as defined by the International Organization of Supreme Audit Institutions (INTOSAI).¹⁰ This change has enabled Benin to comply with the WAEMU Community Directives, that prescribe the establishment of a Court of Auditors in each member country. Its powers, composition, organization, and operation were established by Law 2020-38 of December 30, 2020 Establishing the Organic Law of the Court of Auditors, and its first officials were recently appointed. Actions have been taken for the appointment of judges, the establishment of chambers, and the adoption of the law on procedures.

26. Until all of its bodies and procedures are established, the Court of Auditors is operating under the same conditions as the former Chamber of Auditors. In this regard, in addition to its legal duties to judge the accounts of public accountants (approximately 78 management accounts are submitted to it every year), it prepares and publishes a RELF and DGC every year (pending migration to the certification of accounts, probably beginning in 2023). Each

⁸ <https://dsbb.imf.org/e-gdds/country/BEN/summary-report>

⁹ Law 2019-40 of November 7, 2019 Revising Law 90-32 of December 11, 1990 on the Constitution of the Republic of Benin, and in particular, Article 134-3.

¹⁰ International Organization of State Audit Institutions.

year, the Court of Auditors prepares an audit report on disbursements of external financing, audit reports to certify performance of program budget execution by the duly assigned sectoral ministries; audit reports on all World Bank projects, management control reports from certain organizations, and public corporations. As it has not yet changed to the certification of accounts, the Court of Auditors is currently not in a position to express an opinion on the fair view of the government's accounts.

27. In these dynamics of change, there are concerns as a result of persistent weaknesses and new challenges. These issues relate in particular to the absence of an annual report, an inefficient mechanism for monitoring the recommendations of the audit reports, and very limited, if not nonexistent action in the area of budget discipline. In addition, there is no formal action plan for meeting the prerequisites for the certification of accounts, including the strengthening of the capacities of the audit judges in this new professional activity, as well as the problems with the Court of Auditors' website.

1.4.3. Comparability of fiscal data	Good
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28. Budget execution and forecasts as well as the final accounts are presented in a comparable manner with published reconciliations. The RAPEX presents an overview between budget forecasts and execution for the main budget aggregates (see Table 1.6). The year-end report presents this comparison on a commitment basis. A reconciliation between budget execution and the final accounts is prepared in connection with the submission of the CGAF to the Court of Auditors, and certain elements are taken and published in the RELF.

Table 1.6. Benin: Illustration of the Comparison Between Budget Forecasts and Outturn in the RAPEX, December 2020
(Millions of CFAF)

Type of expenditure	2019			2020			Discrepancies	
	Annual forecasts	Commitment	Rate (%)	Annual forecasts	Commitment	Rate (%)	Value	Rate
Public debt finance charges	153,900	139,372.7	90.6	189,300	176,282.9	93.1	36,910.2	26.5
Personnel charges	374,750	367,036.6	97.9	393,800	396,679.0	100.7	29,642.4	8.1
Goods and services expenditure	94,722	94,700.3	100.0	187,980	104,435.3	55.6	9,735.3	10.3
Transfer expenditure	201,117	174,459.2	86.7	265,144	256,752.0	96.8	82,292.8	47.2
Total	824,489	775,569	94.1	1,036,224	934,149	90.1	158,580.7	20.4

Source: DGB, RAPEX, December 2020.

29. The reconciliation between the budget data and financial statistics is not published. In fact, the TOFE is prepared based on the budget data through bridge tables. However, these bridge tables are not published and no explanatory notes are circulated for the various adjustments that are made.

Conclusions and Recommendations

30. There is still scope for progress in the development and dissemination of financial data to reflect the efforts during recent years in the publication of the data.

- The annual and infra-annual reports on budget execution provide an overview of operations related to the government budget and additional information, although not consolidated, on other players in the public sector. However, this information on government finance statistics is still limited.
- The TOFE has a limited range of institutional coverage and focuses only on the production of a statement of operations, although no report providing an overview of at least the government's financial balance sheet is produced.
- The mission acknowledges the efforts in implementing reforms to improve the coverage of the financial data and to establish an accrual-based accounting system. However, a financial balance sheet can be prepared and the results disseminated before the full migration to accrual accounting. The existing information will make it possible to prepare this balance sheet, albeit on an incomplete basis. It will be upgraded as the quality of the source data that are collected improves.

31. The effort to modernize the external audit function is duly noted and may allow an alignment with the relevant international standards in the near future. During the past three years, the remarkable effort made by the authorities to publish the audited financial statements within an acceptable time frame has encountered problems in connection with publication logistics with the Court of Auditors. In fact, the publication date of the audited financial statements is not clearly indicated in the current texts, which leads to confusion with the filing date of the Supplementary Budget Law in Parliament. The Court of Auditors is not currently in a position to issue an opinion on the fair view of the government accounts, as it has yet to change to the certification of accounts in the absence of financial statements prepared on an accrual basis.

32. Two recommendations are proposed in connection with this pillar of the Code:

- **Recommendation 1.1: The process of improving the coverage, production, and dissemination of government finance statistics should be accelerated.**
 - The coverage of the current TOFE should be expanded to all units of general government where information is available within the MEF. This exercise may begin with the presentation of revenue and expenditure and the TOFE might be expanded gradually with financing information when it becomes available.
 - Production of the TOFE should be improved by reducing the statistical gap and producing explanatory notes covering the methodology and source data used.

- The exercise of preparing and publishing at least an annual financial balance sheet should be initiated for budgetary central government: a suggestion is presented in Annex II for the preparation of such a balance sheet, even if the accrual accounting system is not yet in place.
- The TOFE based on GFSM 2001/2014 should be released: Even if the work is being currently piloted and the quality of the information is not yet optimal, the authorities should begin to inform the public that such information exists before the move to the GFSM 2001/2014 based TOFE is completed. (*within reach*).
- A memorandum and a bridge table between the two methodologies (fiscal data and fiscal statistics) should be disseminated to facilitate the understanding of the new presentation.
- **Recommendation 1.2: The production and external auditing of the government accounts, as well as the lags for disseminating their certification, should be improved.**
 - The periodicity and timeliness of the budget execution reports should be improved based on the information system and the possibility should be explored of publishing quarterly and monthly budget execution reports with a lag of one month after the reference period.
 - The process of implementing the new Court of Auditors should be accelerated, more specifically by establishing its bodies and procedures, developing the capacities of the judges of accounts in the area of certification, making its website operational, and correcting the problems found in implementing these activities.

A process of shorting the lag for the publication of the audited government accounts to six months should be undertaken in the medium term, as suggested by international best practices.

Table 1.7. Benin: Summary Assessment – Pillar I (Fiscal Reporting)

Principle		Assessment	Importance	Rec.	
1.1. Coverage	1.1.1.	Coverage of institutions	Not met. There is no report that presents all central government budget data on a consolidated basis. The information on flows is scattered among several budget documents.	High. Expenditure of public sector entities not covered by the TOFE is estimated at approximately eight percent of GDP.	1.1.1.
	1.1.2.	Coverage of stocks	Not met. Aside from the information on public debt, no information is published on the government's assets and liabilities.	High. Central government assets are estimated at 90 percent of GDP. An overview of all assets and liabilities is important for a more effective assessment of the financial situation.	1.1.3.
	1.1.3.	Coverage of flows	Basic. The TOFE covers revenue, expenditure, and financing on a modified cash basis.	Medium. Capturing revenue, expenditure, and other economic flows on an accrual basis will provide a better understanding of government finance.	1.1.4.
	1.1.4.	Coverage of tax expenditures	Good. The annual report on tax expenditure is appended to the draft budget law. Estimates are presented by tax system, sector, and beneficiary.	Medium. Tax expenditure was estimated at a low level of approximately 2.6 percent of GDP in 2019. This level may increase with improved evaluation coverage.	
1.2. Frequency and timeliness	1.2.1.	Frequency of in-year reporting	Basic. The report on budget execution is produced quarterly within a maximum lag of 90 days.	Medium. While in-year reports are produced regularly, there is scope for improvement in periodicity and timeliness.	1.2.1.
	1.2.2.	Timeliness of annual financial statements	Basic. The RELF and DGC are prepared with a lag of nine months by the Court of Auditors, but are only published with a lag of 12 months.	Medium. The publication lag exceeds the lag for issuing the audit report as a result of a logistical problem that can be quickly resolved.	1.2.3.
1.3. Quality	1.3.1.	Classification	Advanced. Financial reports contain economic, functional, administrative, and program classifications, in accordance with international standards.	Low. The migration to the new TOFE should be accelerated to establish an economic classification based on GFSM 2001/2014.	
	1.3.2.	Internal consistency	Good. A reconciliation between the budget balance and financing is presented in the TOFE, while the reconciliation of debt issued and debt held is published by the CAA in the annual debt management report.	Medium. The integration of stocks and flows will only be possible when the accrual accounting system is effectively in place.	1.1.2.
	1.3.3.	Historical revisions	Not applicable. Financial statistics are not subject to major revisions.	Low. The revision of the TOFE figures is estimated at less than 0.1 percent of GDP.	
1.4. Integrity	1.4.1.	Statistical integrity	Good. Government finance statistics are produced by the Economic and Financial Program Monitoring Unit (CSPEF) that reports to the MEF, and are released according to the international standards of the General Data Dissemination System (e-GDDS).	Low. The frequency for the dissemination of these data according to the GDDS should be improved.	
	1.4.2.	External audit	Basic. The Court of Auditors has the status of a supreme government finance audit institution and publishes an audit report on the reliability of the financial statements.	High. While the migration to a certification of accounts is planned for 2023, the prerequisites have yet to be met.	1.2.2.
	1.4.3.	Comparability of fiscal data	Good. A comparison between budget forecasts and outturn, and a reconciliation between projections and the government's final accounts are published.	High. The reconciliation between budget and statistical data is important with a view to the transition to a TOFE based on GFSM 2001/2014.	1.1.5.

II. FISCAL FORECASTING AND BUDGETING

The budgets and fiscal forecasts that are used as their basis must clearly state the budget objectives and policies targeted by the administration, and present comprehensive, current, and credible projections of government finance trends.

30. This section assesses the quality of Benin's financial forecasting and budgeting practices with relation to the IMF's Fiscal Transparency Code. The analysis and discussion address four areas:

- i. The comprehensiveness of the budget and associated documentation;
- ii. The orderliness and timeliness of the budget process;
- iii. Policy orientation; and
- iv. The credibility of the fiscal forecasts and budget proposals.

31. The main legislative texts, fiscal and budget documents consulted during the mission are presented in Table 2.1.

Table 2.1. Benin: Fiscal Forecasting and Budget Documents

Document title	Content	Date / frequency of publication
Legal and regulatory framework		
Constitution (Law 2019-40 on Revision of Law 90-32)	This fundamental law defines the areas within the scope of the law, defines the respective roles and responsibilities of the executive and the legislative branches in budget and financial matters, and provides the main principles governing public finance.	1990, revised in 2019
Organic Law on Budget Laws (LOLF) (Law 2013-14)	This text establishes the rules relating to the area on the classification, content, presentation, preparation, adoption, execution, and control of budget laws and determines the conditions under which medium-term fiscal policy is adopted for all areas of government finance.	September 27, 2013
Law establishing the Public Procurement Code (Law 2017-04)	This text establishes the rules governing the award of public contracts, public service delegations, and the execution and control of public contracts.	October 19, 2017
Law establishing the legal framework for Public-Private Partnerships (PPP) (Law 2016-24)	This law determines the fundamental principles for the conclusion of public-private partnership agreements and establishes the legal system for the conclusion, execution, mechanisms, control, and termination of public-private partnership agreements.	October 11, 2016
Decree 2015-035 on the Transparency Code in Public Financial Management in the Republic of Benin	This text stipulates the major principles of transparency providing the framework for public financial governance.	2013
Decree 2014-041 on preparation of the table of	This decree defines the mechanisms for the presentation of government financial operations.	December 31, 2014

Document title	Content	Date / frequency of publication
government financial operations (TOFE)		
Decree 2020-495 approving the timetable for budget activities	This decree establishes the main stages and deadlines in the preparation of the government budget	October 7, 2020
Decree establishing the schedule of tasks relating to the drafting of the budget law and the multiyear budget	This decree identifies the administrative units involved in the budget preparation process (pilot and related units), the stages of budget preparation and specific tasks, as well as the expected deliverables and their deadlines.	Every year
Decree 2020-497 establishing the powers and mechanisms for appointing program heads	This decree sets out the responsibilities and mechanisms for the appointment of program heads by the ministers and heads of the institutions.	October 7, 2020
Decree 2014-794 establishing the government budget nomenclature	This decree establishes the basic principles for the presentation of the operations of the general budget, special treasury accounts, and annex budgets.	December 31, 2014
Decree 2018-131 of April 18, 2018 amending decree 99-223 of May 4, 1999	This decree covers the establishment, duties, composition, and operations of the Gross Domestic Product-Table of Government Financial Operations Committee (PIB-TOFE).	April 18, 2018
Budget documents		
National Development Plan (PND)	Reference document for national development policy	2018-2025/ theoretically every seven years
Growth and Sustainable Development Program (PC2D)	Framework for implementing the PND during the period 2018-2021	2018-2021
Government Action Program (PAG)	The Government's development action plan, the main areas of which have been incorporated into the PND	2016-2021
Notes on the economic situation	These notes establish the economic and financial situation and outlook.	Quarterly or monthly
Multiyear Economic and Budget Programming Paper (DPBEP)	This paper is drafted in preparation for Parliament's budget orientation discussions. This is part of a three-year outlook and presents a macrobudgetary framework for the next three years, subject to the WAEMU convergence criteria.	June of each year, updated in September/October
Public investment program (PIP)	The PIP provides the total cost of each budgeted investment project and a disbursement schedule for the next three years.	June of each year
Multiyear Expenditure Programming Paper (DPPD)	This DPPD is the program budget document for each ministry.	June of each year
Annual Performance Project (PAP)	The PAP is a document in which the program heads define the objectives and results (along with indicators) that they undertake.	October of each year
Annual Performance Report (RAP)	Component of the RAP that reflects the performance of the program heads.	June of each year
Draft Budget Review Law, presentation report, and Budget Review Law	The PLR reports on and closes budget execution for year n-1	October of each year
Draft Initial Budget Law (PLFI) and presentation report	The PLFI presents the draft budget of the executive, to be submitted to Parliament. It is accompanied by a	October of each year

Document title	Content	Date / frequency of publication
	presentation report, explanatory annexes, and the economic and financial report.	
Draft Supplementary Budget Law (PLFR) and presentation report	The PLFR is prepared during the year and amends the budget authorizations in the Initial Budget Law. It is accompanied with the legal annexes and supporting documentation for its submission to Parliament.	On an <i>ad hoc</i> basis.
Economic and Financial Report (REF)	The REF presents the government's economic and financial situation at the time the Draft Initial Budget Law is submitted.	October of each year
Initial Budget Law voted and promulgated	The annual initial government budget	December of each year
Budget Review Law voted and promulgated	Government budget review law for the previous year	December of each year
Supplementary Budget Law voted and promulgated	Revised annual government budget	On an <i>ad hoc</i> basis
Public information documents (citizen's budget, comics, televised spots, budget literacy, etc.)	These brief documents use accessible language to inform the public on budget issues specifically concerning them.	Ongoing during the year
Annual cash flow plan	Document reflecting the sustainability of the budget financing submitted to Parliament	October of each year
Carryover decree	This Decree authorizes the use of certain unused appropriations from the past year in addition to those voted by Parliament	March of each year
Budget execution report (RAPEX)	Quarterly report on government budget execution	Quarterly
Year-end report (RFA)	Annual government budget execution report	March of each year
End-of-cycle report	This report, inter alia, summarizes the performance of the ministries for each program.	Midyear and year end
Community and regional convergence papers	Macroeconomic analysis papers describing the recent economic and financial situation and the medium-term outlook, consistent with the convergence objectives in the framework of WAEMU and ECOWAS multilateral surveillance.	Annual/semiannual

Source: Mission.

2.1. Comprehensiveness

2.1.1.	Budget unity	Advanced
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32. The budget documentation presents information on revenue, expenditure, and financing of all central government operations on a gross basis. The Initial Budget Law and its budget annexes present all tax and nontax revenue (including own revenue of the government units), exceptional revenue, and project grants and loans for all 33 constitutional institutions and ministries. Expenditure is presented by economic and administrative type, by

program, and function. The information on the revenue and expenditure of the various special treasury accounts is also available.

33. Budget and financial information for other government entities is also available.

The DPBEP contains a section on overall own revenue and transfers from the government to the subnational authorities and their aggregate expenditure by type.¹¹ Information is also available for the two social security institutions/funds (the National Social Security Fund—CNSS and the National Retirement Fund of Benin—FNRB).¹² The Multiyear Economic and Budget Programming Papers for 2020-2022 and 2021-2023 contain information on public administrative entities (EPA). In addition, the 2021 draft budget was accompanied by an overall report of EPA revenue and expenditure covering the period 2017-2020 and presents revenue and expenditure of the EPAs in aggregate form, making the distinction between operating and capital subsidies received from the government during the period. However, other sources of funding for EPAs (own revenue, financing from donors, and loans) are not specified.

2.1.2. Macroeconomic forecasts	Good
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34. Forecasts of the major macroeconomic variables and their underlying assumptions are presented in the budget documentation.

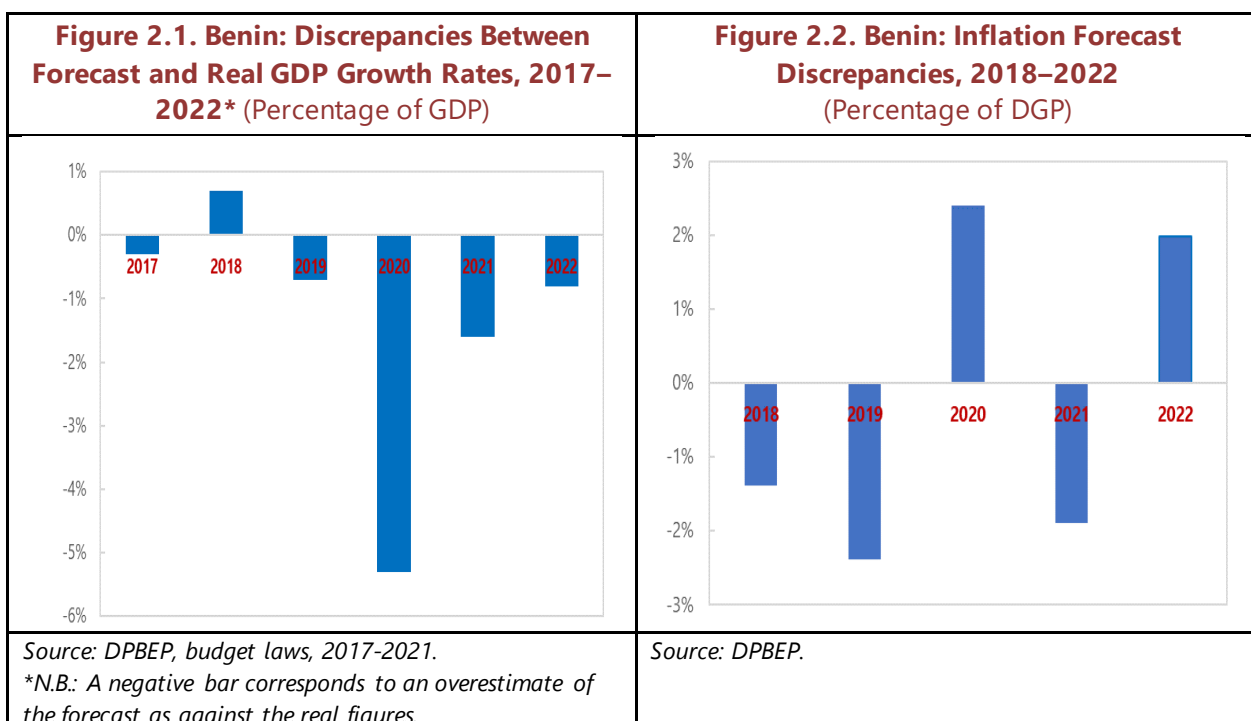
This information is published by the Directorate General of Economic Affairs (DGAE) with (i) an annual approach in the Economic and Financial Report (REF); and (ii) a multiyear approach in the DPBEP, first in June for the budget orientation discussions (DOB) and subsequently in September with an updated version to be appended to the Initial Draft Budget Law (PLFI). Box 2.1 presents the contents of these two documents.

<p>Box 2.1. Information on Forecasts of Key Macroeconomic Variables in the DPBEP and REF</p> <p>The DPBEP covers an analysis of recent economic trends, the analysis of the situation in the current year, and the results of the projections for the four macroeconomic accounts. The projected indicators cover the growth rate in GDP, inflation, and balance of payments balances and their components. The forecast TOFE, which is an integral part of the DPBEP, presents the assumptions on financial commitments from the donors. The macroeconomic framework model used covers all four accounts and provides consistent results across all economic sectors. The DPBEP 2022-2024 published at the end of June 2021 includes the economic and financial outlook for the period 2022-2024.</p> <p>The REF presents recent developments in the international and subregional environment, provides a review of the macroeconomic forecasts made for the first half of the year, presents government finance execution, the economic and financial outlook highlighting the main options of the Draft Budget Law.</p> <p>As a number of other indicators influence budget policy and execution (terms of trade, exchange rates, interest rates, etc.), a gradual extension of the scope of the macroeconomic variables presented in these reports should be considered.</p> <p><i>Source: DPBEP and REF.</i></p>

¹¹ An analytical memorandum on local finance is appended to the PLF.

¹² Information on revenue and expenditure of the FNRB is also provided in the LFI.

35. However, trends in the components of macroeconomic variables and assumptions are not explained. Developments in the different components of GDP and the balance of payments balances are not analyzed in the DPBEP. Similarly, the factors underpinning the key macroeconomic assumptions are not highlighted. Figure 2.1 shows an overestimation of growth rates between the final result and the growth rate used to prepare the Budget Law. The gap seems to be larger when analyzing the three-year projections. The inflation differentials (measured using the GDP deflator) are also substantial (from 1 to 2 percent as an absolute differential) (see Figure 2.2).

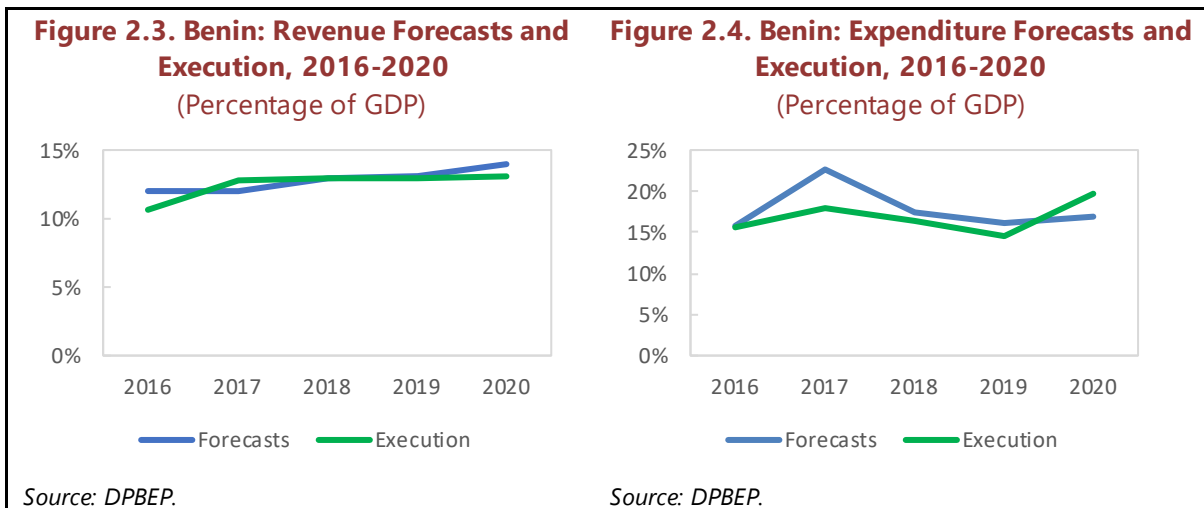


2.1.3.	Medium-term budget framework	Advanced
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36. The DPBEP and the DPPD are the supporting documents for the medium-term budget framework. The DPBEP contains the overall forecasts of revenue, expenditure, and financing with a three-year horizon. The medium-term expenditure forecasts provided in the DPBEP are presented by budget headings and by function. The paper also contains a summary of the budget results from the previous two fiscal years. The DPBEP is adopted by the Council of Ministers and submitted for the budget orientation discussions in Parliament in June, accompanied by the ministries' multiyear expenditure programming papers (DPPDs) developed based on the sector trend envelopes.

37. Based on the guidelines from Parliament, indicative envelopes are communicated to the ministries to enable them to finalize the DPPDs. The Directorate General of Budget

(DGB) notifies the ministries of the three-year envelopes when the budget call circular is issued.¹³ Based on these indicative envelopes, the sector ministries finalize their DPPDs to reflect the ministries' strategic plans and program budget and present expenditure for each ministry during the next three years, by program, administrative, economic and functional classification, and source of funding. In addition, multiyear expenditure by ministry, program, and economic category are presented in cross classification matrices. All these documents are submitted to Parliament annexed to the Draft Initial Budget Law and published in the Directorate General of Budget's website. Last, as shown in Figure 2.3, there were no substantial differences between the revenue forecasts and execution during the period 2016-2020. However, expenditure execution generally fell short of the forecasts for the period 2016-2020 (see Figure 2.4).

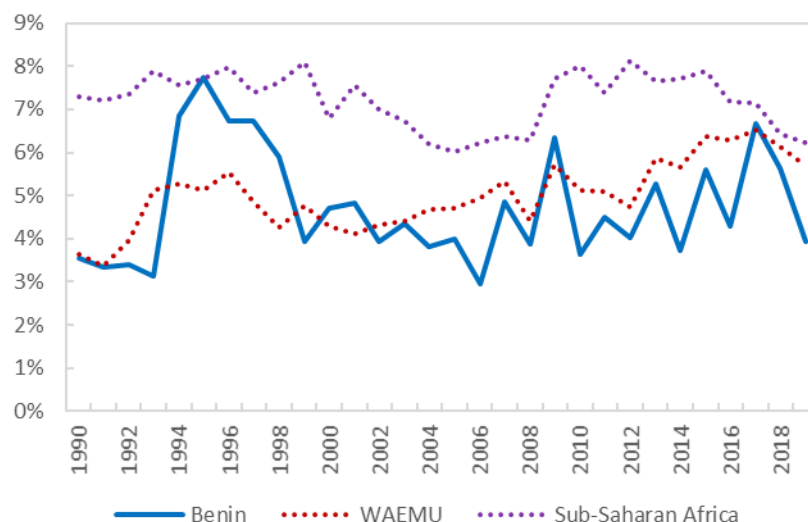


¹³ For 2022, the envelopes were submitted electronically, as a test, through the public financial management computer system.

38. Benin devotes a smaller share of its GDP to public investment than the countries in the region and in Sub-Saharan Africa.

Between 1990 and 2019, average public investment accounted for 7.4 percent of GDP, slightly below the average of 7.9 percent of GDP observed in the West African Economic and Monetary Union during the same period (Figure 2.5).

Figure 2.5. Benin: Public Investment, Regional Comparison (Percentage of GDP)



Source: World Economic Outlook and IMF staff estimates.

39. Substantial progress has been made in public investment management in Benin. The various stages of the project life cycle (programming, budgeting, execution, and monitoring and assessment) as well as the technical and organizational procedures for the management of public investments are formally established in Decree 2019-193 of July 17, 2019. In addition, a manual on public investment management, that defines the specific mechanisms for implementing this Decree, was finalized in December 2018. Capital budgeting was included in the annual budget procedure and according to a recent reform the responsibilities of the Directorate General of Budget and the Directorate General of Public Investment Programming and Monitoring (DPSIP) were merged which will improve the coordination of the recurrent and capital budget preparation and accordingly will strengthen budget unity. Last, a georeferenced platform for programming and monitoring investment projects has been in place since 2020. The tool can be used for programming of projects and to monitor financial and physical implementation. The investment platform has been accessible to the public since 2021.¹⁴

40. The Planning and Development Ministry (DMP) prepares a rolling three-year Public Investment Program (PIP) each year, under which capital expenditure is broken down by ministry. The PIP presents (i) the total project cost, updated annually; (ii) cumulative project expenditure; (iii) commitment authorizations (AE) and payment appropriations (CP) for the next

¹⁴ However, access to some information on the platform, such as the spatialization of public investment, requires registration and prior authorization.

year; and (iv) a schedule of disbursements for the next three years. The PIP is presented to Parliament as an annex to the Draft Budget Law, that is concurrently published in the portal of the Ministry of Planning and Development and Directorate General of Budget.

41. The mechanisms for project appraisal, including a cost-benefit analysis, and project selection have improved, although the information available to the public is still limited.

The new decree on public investment management confirms the mandatory nature of the project appraisal included in the PIP (Article 7). In fact, since the 2018 Budget Law, no projects have been included in the PIP if they have not been subject to a prior feasibility study including a cost-benefit analysis. However, there is scope for improvement in this analysis. The Government established a project preparation and management fund of CFAF 2 billion in 2021 and a feasibility study fund of CFAF 7 billion for 2021 and has recently developed a manual to develop feasibility studies, with the support of the German cooperation, GIZ. In addition, the project selection criteria have been refined to ensure that sufficiently prepared, mature projects are included in the budget. Projects are selected in a two-stages process: preliminary vetting, that consists of a technical assessment of the projects, and vetting substantially based on policy. There are project selection criteria for new projects and for ongoing projects, so that the execution status of projects can be assessed and eventually projects can be removed from the PIP. However, feasibility studies or summary of feasibility studies and project selection criteria are not published.

42. The Public Procurement Code requires major projects be subject to an open and transparent process. In accordance with Law 2017-04 of October 19, 2017 on the Public Procurement Code, for public procurement tenders in amounts exceeding the public procurement award threshold, open requests for tenders are generally the rule (Article 31). Article 63 of the same Code provides that public procurement tenders must be published in the public procurement journal or any other national or international publication, as well as electronically. Article 18 of the Code reaffirms the creation of the Public Procurement Regulatory Authority (ARMP) as a regulatory public procurement body in charge of reviewing the complaints related to public procurement awards. In accordance with Article 138 of the Public Procurement Code, it must issue its decision within seven business days from the date the appeal process ended.

43. The Public Procurement Code seems to be effectively applied. Procurement plans of 256 contracting authorities are published in the public procurement portal. The Public Procurement Journal is available online¹⁵ and also contains notices of public procurement awards. Appeal decisions are published at the ARMP's website.¹⁶ Last, according to the latest statistics from 2020 published at the Public Procurement Portal, most contracts exceeding the public procurement limit (and accordingly, most major public procurement projects) followed the

¹⁵ <https://www.marches-publics.bj/journal-des-marches-publics>

¹⁶ <https://www.armp.bj/>

competitive bidding process, representing 14.5 percent of the total number of contracts executed and 68.3 percent of the total procured value in 2020. PPPs are subject to a separate procurement process. According to Article 18 of Law 2016-24 of October 11, 2016 on the Legal Framework for PPPs, the latter are subject either to international tenders and executed by private agreement, or subject to spontaneous bidding. However, according to the authorities, no PPP contracts have so far been executed.

2.2. Orderliness

2.2.1.	Fiscal legislation	Advanced
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44. The legal framework for public finance in Benin clearly defines the process of preparing and adopting the budget, the content of the budget laws, and the respective roles of the executive and legislative branches. Pursuant to WAEMU Directive 06/2009/CM/WAEMU of June 26, 2009 on Budget Laws within the WAEMU Area, Benin adopted Law 2013 of September 27, 2013 on the Organic Law on Budget Laws (LOLF). This law defines, *inter alia*: (i) the content of the budget laws (Initial Budget Law (LFI), Supplementary Budget Law (LFR), and Budget Review Law (LR)); (ii) the major stages of the budgeting and adoption process (Budget Orientation Discussions—DOB, preparation, submission, and voting of the Draft Budget Law; and promulgation of the Budget Law; and (iii) the respective roles and responsibilities of the executive and legislative branches (see Table 2.2). The LOLF is in compliance with the Constitution of the Republic of Benin,¹⁷ that establishes the main rules governing the presentation and adoption of the budget laws, in particular: (i) the initiative of laws, that is concurrently incumbent on the President of the Republic and the Members of the National Assembly (Article 105); (ii) the general principles relating to the Members’ power to amend the Budget Law (Article 107); (iii) the content, filing deadline, and procedure for voting on the Initial Draft Budget Law (Article 109); and (iv) the special circumstances for establishing the budget by order or through the authorization of provisional twelfths (Articles 68, 110, and 111).

45. A detailed timetable for budget preparation is developed each year in the context of the planning of tasks required to draft the PLFI and the DPBEP/DPPD. In accordance with Decree 2020-495 of October 7, 2020 approving the budget calendar,¹⁸ the Ministry of Economy and Finance adopts a decree each year that establishes the budget calendar for the preparation of the DPBEP/DPPD and the PLFI. The calendar identifies the agencies/departments involved in the budget preparation process (main and secondary responsible agencies/departments), the stages of budget preparation and specific tasks, as well as the expected deliverables and their deadlines. This decree is published no later than February at the DGB portal.

¹⁷ Law 90-32 of December 11, 1990 as amended by Law 2016-40 of November 7, 2019.

¹⁸ Decree 2020-495 of October 7, 2020 repeals the provisions of Decree 2011-554 of August 24, 2011 approving the schedule of budget activities and any other conflicting prior provisions.

Table 2.2. Benin: Principles for Preparing and Adopting the Budget Laws Included in the LOLF

Principles	Article	Purpose
Major deadlines	• Article 59	• Filing of the DPBEP with the National Assembly for the budget orientation discussions
	• Article 61	• Filing of the PLFI with the National Assembly and deadline for adoption
	• Article 66	• Filing of the Budget Review Law with the National Assembly and deadline for adoption
Presentation and content of the budget laws	• Articles 47, 48, and 49	• Presentation and content of the initial budget laws and their annexes
	• Articles 50 and 51	• Content of the supplementary budget laws and filing status
	• Articles 52, 53, and 54	• Objectives, content, and annexes to the revised budget laws
Responsibilities	• Article 55	• The role of the MEF in preparing the draft budget law and the adoption role of the Council of Ministers
	• Article 62	• The National Assembly's power of amendment ¹⁹
	• Article 64	• Budget voting mechanisms
	• Article 65	• Promulgation and implementation of the budget law

Source: LOLF.

2.2.2.	Timeliness of budget documents	Good
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46. The provisions of the law regarding the submission, adoption, and promulgation of budget documents were observed during the period 2019-2021. According to Article 105 of the Constitution of the Republic of Benin, as amended by Law 2019-40 of November 7, 2019, the Draft Initial Budget law must be submitted to the National Assembly no later than one week before the opening of the October session, corresponding to three months before the beginning of the fiscal year. In accordance with the LOLF, the National Assembly has until December 31 to analyze and vote on the budget. The President is required to promulgate the budget law before the beginning of the fiscal year, that is set for January 1. These deadlines were always met during the period 2018-2021 (see Table 2.3). In addition, the LOLF introduced the budget orientation discussions during which Parliament analyzes and discusses the multiyear budget and economic programming paper as well as the orientations for the multiyear expenditure programming paper. The budget orientations step gives members of Parliament an overview of changes in the

¹⁹ The National Assembly may eliminate or reduce an expenditure item or create or increase a revenue item.

budget situation and the government's financing needs ahead of the Draft Initial Budget law, and thus facilitating its analysis.

47. Making the Draft Initial Budget Law and its annexes available to the public in October gives the public sufficient time to examine the budget documentation. The Draft Initial Budget Law is published at the DGB's website after it is submitted to the National Assembly. In addition, after promulgation, the budget law is published in the Official Journal of the Republic and at the DGB portal, where the annexes are also available.

Table 2.3. Benin: Major Deadlines for the Draft Initial Budget Law during the Past Three Years

	Submission to the National Assembly	Publication of the draft budget law	Approval by the National Assembly	Promulgation	Publication of the budget law
2019 Draft Budget Law	October 5, 2018	October 11, 2018	December 20, 2018	December 28, 2018	January 17, 2021
2020 Draft Budget Law	September 25, 2019	October 18, 2019	December 19, 2019	December 27, 2019	January 8, 2021
2021 Draft Budget Law	October 7, 2020	October 20, 2020	December 8, 2020	December 24, 2020	January 21, 2021

Source: DGB and the Secretariat General of the Government.

2.3. Policy Orientation

2.3.1. Fiscal policy objectives	Advanced
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48. Fiscal policy in Benin is guided by the convergence criteria established by the WAEMU and the Economic Community of West African States (ECOWAS). During the period 2016-2019, Benin gradually improved its performance with relation to the achievement of the convergence criteria (see Table 2.4). However, on April 27, 2020, at the WAEMU meeting of heads of state, the convergence criterion on the budget deficit was temporarily suspended to give member countries the budget space required to address the effects of the COVID-19 pandemic.

Table 2.4. Benin: WAEMU Convergence Criteria, 2016–2019

Convergence criterion	Regulatory text	2016	2017	2018	2019
<i>First level criterion</i>					
Budget deficit (including grants, % GDP)	> = -3%	-6.0	-4.3	-2.9	-0.5
Inflation Rate (CPI)	< = 3%	-0.8	1.8	0.8	-0.9
Stock of debt (% GDP)	< = 70%	49.7	39.7	41.1	41.2
<i>Second level criterion</i>					
Wage bill over tax revenue	< = 35%	55.2	47.3	44.0	41.4

Convergence criterion	Regulatory text	2016	2017	2018	2019
Fiscal pressure	> =20%	12.6	9.7	10.3	10.6

Source: IMF.

49. The convergence criteria are subject to comprehensive monitoring. The Regional Integration Monitoring Unit (CSIR) prepares a quarterly report on the economic and financial situation of the country, including an analysis of the status of convergence, for the two regional organizations (WAEMU and ECOWAS). Subsequently, the WAEMU will publish a report each semester on implementation of multilateral surveillance, summarizing the performance of the member countries. Monitoring of the convergence criteria and their targets for the next three years are presented in the DPBEP appended to the PLFI.

2.3.2. Performance information	Good
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50. One of the main objectives of the Organic Budget Law is to promote effective public action through results-based management. As part of this reform, implementation of which began on an experimental basis on January 1, 2021, the government budget is now structured in the form of programs representing the government's public policies. Each program is structured according to objectives and results established to reflect the three criteria (the socioeconomic impact of the expenditure from the public's standpoint, the quality of the public service from the user's standpoint, and efficiency in the use of public funds from the taxpayer's standpoint). The effective change to program budgeting is scheduled for January 1, 2022.

51. The budget documentation provides ample information on the performance, even if the information on the level of performance is still scattered and unstructured. From the planning stage, the National Development Plan (PND) (2018-2025) establishes the strategic development objectives and expected results, along with indicators to measure the impact and effect. The PND is implemented within the framework of the Growth and Sustainable Development Program (PC2D 2018-2021) and incorporates the main axes of the government action program (PAG 2016 - 2021). In addition to the Multiyear Expenditure Programming Paper (DPPD) and as part of the budget documentation accompanying the Draft Initial Budget Law, annual performance projects (PAP) are produced. Through the PAPs program managers commit to annual or medium-term performance targets on which they are required to report at the end of the year in the annual performance reports (APR) appended to the PLR. However, the presentation of the information on results is still incomplete and is not uniform. Performance information is partially contained in the midyear and year-end reports (summary by ministry and by program) as well as in the annual performance reports published at the DGB's portal for a number of ministries (five were available for 2019) or submitted to the Court of Auditors (two ministries). For the other ministries, for which the APRs are not published, transmission slips for their drafts to internal ministries' audits for prior review, were submitted to the mission.

52. There is scope for improvement in the quality of the annual performance projects and annual performance reports consulted. A number of deficiencies were found in the annual performance projects, making them fall short of best practices. These problems include the absence of explicit linkages between the objectives of the multiyear expenditure program papers/performance framework (DPPD/PAP) objectives and those of the national development plan, including the Sustainable Development Goals (SDGs); program managers not appointed in many ministries, because the decree defining the appointment modalities has only recently been issued; formulation of indicators with scope for improvement, and many indicators for each program, limiting the capacity of the administrations to provide appropriate information on them (unit, reference value, historical values, and target values); in addition, there has been no general review of all programs and their performance framework since the launch of the program budget process in 2016. In the case of annual performance reports,²⁰ those posted at the DGB’s portal do not provide adequate information to reflect their performance.

2.3.3. Public participation	Good
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53. Since 2018, the government of Benin has been engaged in a process of improving public participation in the preparation of the budget. In 2018, the budget timetable was revised to introduce 10 specific stages of public participation (see Figure 2.6).

54. However, as a result of the COVID-19 pandemic, among other issues, not all of these participation stages could take place. To date, public participation consists in three main stages: the analysis of the Multiyear Economic and Budget Programming Paper (DPBEP), budget conferences at subnational level, and the review of the Draft Initial Budget Law (PLFI). In particular, the National Assembly’s Finance and Trade Commission holds meetings with the unions, civil society, the private sector, and the Chamber of Agriculture and Trades on the Draft Initial Budget Law, and considers the comments made in their advocacy documents to the extent possible. Limited financial literacy is an important constraint to broader participation in the budget process. Online publication of the budget documentation is also a major challenge in light of the internet access problems. The moderate level of public participation in the budget process is reflected in Benin's rating of 50.25 out of 100 on the Voice and Accountability Index of the World Bank’s Governance Indicators for 2020, and in its rating of 24 out of 100 in the public participation index in the 2019 Open Budget Survey (see Figure 2.7).

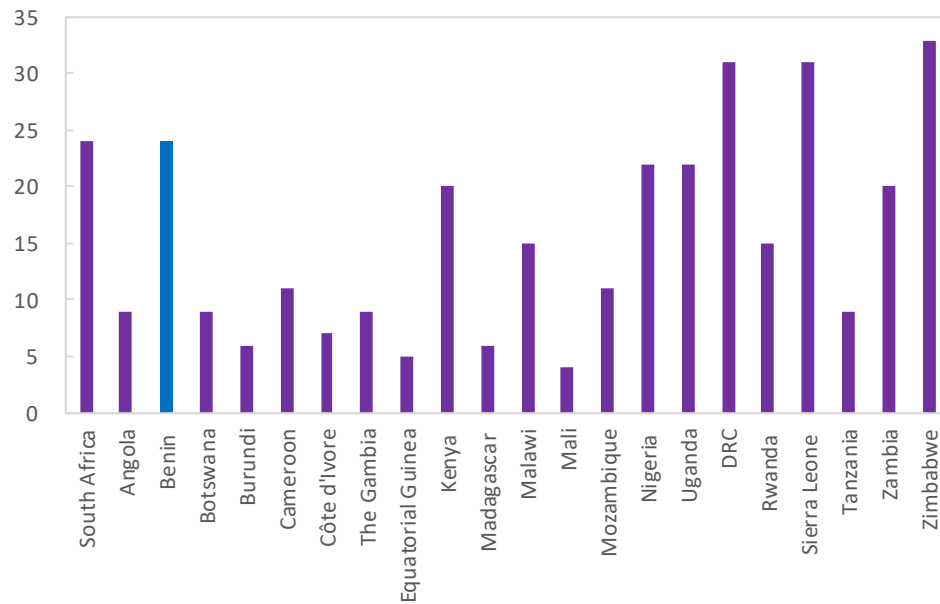
²⁰ The annual performance reports of a number of ministries (approximately 10 in 2020) are published at the DGB’s website and some (three in 2020) were submitted to the Court of Accounts. In addition, the ministries for which the performance reports are not published provided evidence that some of the reports had been prepared and forwarded for prior validation from the internal inspections of the ministries where they are currently in progress.

Figure 2.6. Benin: Stages of Public Participation in Budget Preparation



Source: Budget Timetable for 2018.

Figure 2.7. Benin: Open Budget Survey: Ratings on the Public Participation Index, 2019



Source: OBE data.

55. The Government publishes a citizen's version of several budget documents. This includes the Multiyear Economic and Budget Programming Paper (DPBEP), the Draft Initial Budget Law (PLFI) and the Initial Budget Law (LFI). Public awareness material on the Draft Budget Law and Initial Budget Law is published and analyses the budget allocations of certain sectors that are sensitive to public opinion, such as education, health, employment, and social protection.²¹ The government produces videos on the draft government budget and the budget that is adopted, that are translated into and published in several national languages, along with a comic on the government budget. All of these documents provide a description that is accessible to the public of recent budget performance and the economic outlook, budget revenue and expenditure aggregates, and the impact of the budget on citizens' lives.

2.4. Credibility

2.4.1.	Independent evaluation	Basic
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56. Independent evaluation, in terms of best practices, is not yet effective in Benin. Most officials the mission met were not familiar with this process, and they acknowledged that the government's economic and financial forecasts have never been subject to an external evaluation as described in Annex III.

57. The establishment of two technical support units in the National Assembly could have provided a good basis for implementing an independent evaluation. These two support units, the Government Budget Analysis, Control, and Assessment Unit (UNACEB) and the Parliamentary Institute of Benin (IPAB), work essentially within Parliament.²² Their duties (see Box 2.2) overlap in some areas, and their independence in terms of freedom to conduct assessments and to publish their analytical reports without political interference is not sufficiently established to meet the requirements of an independent assessment. Moreover, their operation is dependent on financing from the technical and financial partners, which is on the decline. Annex IV presents Kenya's experience in establishing the Parliamentary Budget Office.

²¹ The government also publishes the report "Questions of children at the heart of the government budget."

²² The mission was able to consult two UNACEB documents: A report on the evaluation of government budget management and a compendium of recommendations made by the National Assembly to the Government during the review of the 2020 draft budget.

Box 2.2. Main Tasks of the IPAB and UNACEB of the National Assembly

IPAB

The IPAB was established by Decision 2019-70 of September 24, 2019 of the President of the National Assembly to provide Parliament with the resources, tools, techniques, and expertise required to perform its tasks, primarily involving the following:

- Analysis and evaluation of public policies and orientations adopted by the government;
- Strengthening the capacities of the National Assembly in the analysis and control of the government budget;
- Development of a program of studies and research on the cyclical and structural challenges facing Benin, among other activities.

The Institute has five research units, including the Government Finance and Economics Research Unit

Source: Parliament's website.

UNACEB

This unit began operation in 2001 with the support of the United Nations Development Programme (UNDP) and is now an integral part of parliamentary administration.

Its objectives are to:

- Strengthen the technical capacity of the National Assembly in the analysis, control, and evaluation of the government budget;
- Reduce the communication gap between the National Assembly and the public in the control of the government budget.

The UNACEB team consists of multidisciplinary experts, including the Director. Its activities include seminars, training, studies, publication of documents, and a variety of technical support activities for institution building based on an annual program drawn up and submitted to the parliamentary authorities for their consideration.

2.4.2.	Supplementary budget	Good
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58. The Supplementary Budget Law (LFR) is one of three budget laws instituted by the Organic Budget Law (LOLF), in addition to the Initial Budget Law (LFI) and the Budget Review Law (LR). Article 51 of the LOLF recommends the use of supplementary budget when: (i) the main lines of the budget and financial balance defined by the budget law for the year are not respected, because of the introduction of decrees on advances or those canceling appropriations; (ii) when actual revenue substantially exceeds the provisions of the budget law for the year; or (iii) when there are legislative or regulatory measures substantially affecting budget execution.

59. In practice, the use of supplementary budget law is still fairly limited, and generally occurs to a lesser extent to regularize expenditure after the fact. From 2016 to date, the government has adopted only two supplementary budget laws, *inter alia*, to regularize expenditure for the 2016 presidential elections and for COVID-19 in 2020. However, in the interim, a number of important changes have been made to the composition of ministerial expenditure, most often through overrun orders (an unknown activity under the LOLF and its implementing texts), with discrepancies of as much as 196.6 percent (see Table 2.5 below for the 2018 fiscal year). In addition, during the period between 2013 and 2020, expenditure and revenue, on average, were respectively 10 and 27 percent below the approved budget. (See Figures 2.8 and 2.9).

Table 2.5. Benin: Some Budget Overruns During the 2018 Fiscal Year
(In thousands of CFA francs)

Ministere/ Institution	Dotation initiale (DI)	Transferts	Virements	Dépassements	Reports	Fonds de concours	Dotation finale (DF)	Total exécuté (TE)	(DF-DI) %	(DI- TE) %
Présidence de la République	17830303	319156	1305464	934056	175876	-	18940234	13024500	6,2	26,9
Défense	66135454	2886333	431768	14662623	3662541	-	84480618	62440100	27,7	-5,6
Economie numérique et communication	21970618	16288	2837023	2046856	-	-	24017474	17497700	9,3	-20,3
Cadre de vie et développement durable	75191057	9046000	21184000	18850601	19451501	14062300	127555459	113430700	69,6	+50,9
Santé	70377166	887000	402440	5933425	-	-	76310591	63691500	8,4	-9,5
Energie	53929900	12356397	15057405	-	-	4131228	58061128	63860700	7,7	+18,4
Agriculture	84438237	1632536	3153979	200000	-	17881608	102519845	53885900	21,4	-36,2
Tourisme	18864361	-	-	2993536	10961657	-	32819554	22655500	73,9	+20,1
Eau et mines	24191897	1022315	1416660	-	-	9366794	33558691	47610200	38,7	+96,6

Source: RAPEX 2018.

Figure 2.8. Benin: Approved and Executed Revenue, 2013-2020
(In percent)

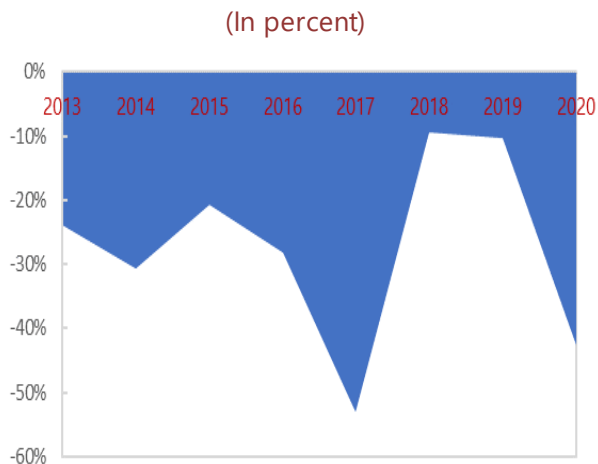
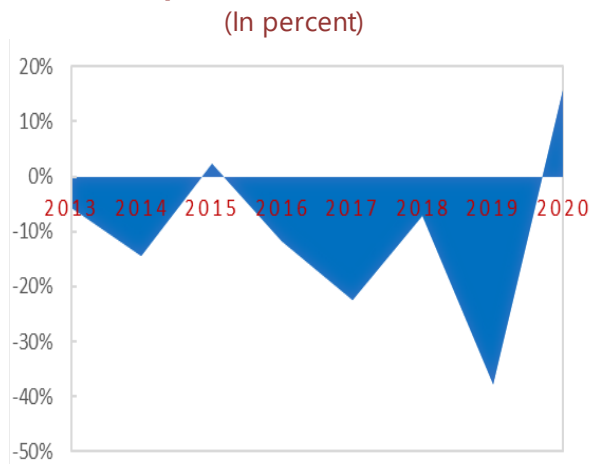


Figure 2.9. Benin: Approved and Executed Expenditure, 2013-2020
(In percent)



Source: Initial Budget Law and Supplementary Budget Law.

Source: Initial Budget law and Supplementary Budget Law.

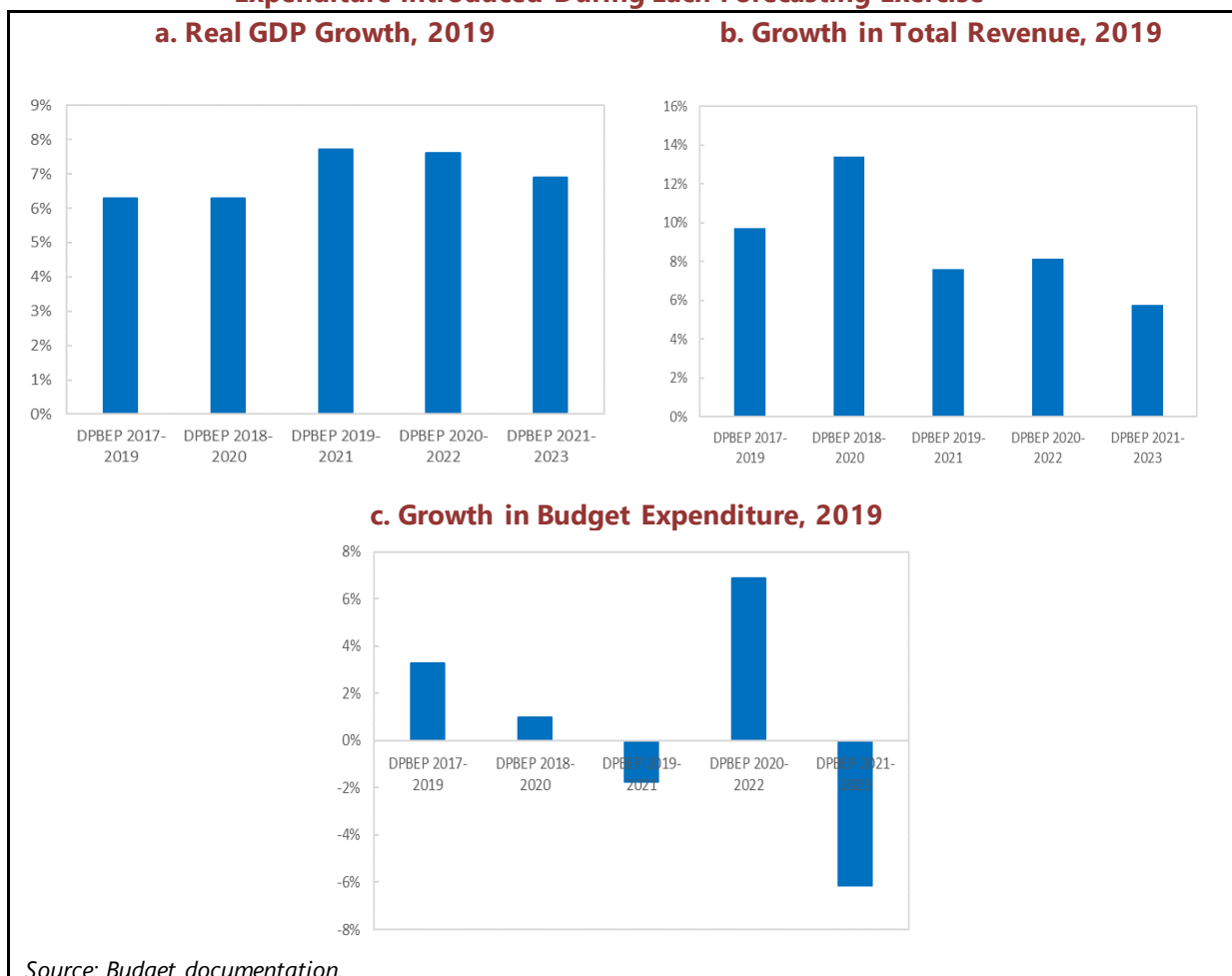
2.4.3. Forecast reconciliation

Basic

60. The process of reconciling successive forecasts is at an early stage in Benin. The Economic and Financial Report (REF) presents and explains the differences between budget projections disaggregated by revenue, expenditure, and financing for year n and year n+1, although these discrepancies are not provided in sufficient detail or quantified with an indication

of the underlying causes. As part of the preparation of the Draft Budget Review Law, the discrepancies as against the Initial Budget Law are systematically presented and explained in the accompanying budget documentation. These revisions can be significant, both in terms of macroeconomic and fiscal forecasts. In Benin, while changes in GDP growth forecasts are minor, the discrepancies are significant in budget revenue and expenditure (see Figure 2.10).

Figure 2.10. Benin: Successive Revisions of Growth in Real GDP and Fiscal Revenue and Expenditure Introduced During Each Forecasting Exercise



61. A good system for reconciling projections must meet certain requirements. This system must include explanations of any discrepancies between successive macroeconomic and fiscal projections by quantifying and explaining them correctly according to the following underlying factors: (i) changes in accounting treatment or classification; (ii) changes in macroeconomic projections deriving from changes in the baseline, assumptions, or demographic parameters; and (iii) the impact of new policies adopted during the year. This analysis is not only essential to improve forecasting methods; it also helps to enhance their credibility. Annex V presents an approach to strengthening the procedure for reconciling macroeconomic projections.

Conclusions and Recommendations

62. Benin has made substantial progress in the area of transparency in budget and financial information. Most of the practices observed are considered good and even advanced (five out of 12 and four out of 12, respectively) under the IMF's Fiscal Transparency Code.²³ The main strengths that positively impacted the evaluation are as follows :

- The stages of the annual budget preparation are properly sequenced and organized, as prescribed by the decree establishing the budget preparation calendar and its implementing decree adopted each year by the Minister of Economy and Finance.
- The government submits the government budget to the National Assembly before the deadline established by law, and it is voted before the beginning of fiscal year to which it corresponds.
- Fiscal policy is firmly anchored to the convergence criteria established by the WAEMU and the Economic Community of West African States (ECOWAS) that has been in force since 2015 and is observed.²⁴
- A three-year macroeconomic and macro budgetary outlook provides information and a framework for the preparation of each annual budget and the deliberation by the Parliament,
- All central government operations are covered by the general government budget.
- The content of budget documentation and the information made available to the public has improved. The public is effectively informed through specific documentation adapted to the audience and provided in a timely manner.
- Major investment projects are subject to well-established, transparent procedures for analysis, selection, budgeting, and monitoring, although there is scope for improvement.

63. However, forecast and budget processes continue to be affected by certain constraints that could be overcome.

- The results of the macroeconomic projections and the underlying assumptions are not sufficiently explained.
- Economic and financial forecasts, as well as the costs of new government policies, are not subject to true independent evaluations, meaning that the public and Parliament do not have a second expert opinion on these issues.
- The practice of reconciling successive forecasts is only in the early stages. During the past seven years, two supplementary budget laws have been adopted to regularize expenditure in connection with the 2016 presidential elections, and in connection with COVID-19 in 2020. In

²³ However, the basic rating was given to only three criteria.

²⁴ All of the first-level convergence criteria were met during the period 2018-2019.

the interim, significant sector adjustments have been observed in the appropriations, particularly in 2017 and 2019.

- While the presentation in the budget documentation of the information on performance is covered, there is scope for improvement in the quality. Similarly, with regard to performance reporting, the production of annual performance reports is not harmonized, or generally applied, and these reports are not appended to the Draft Budget Review Law.

64. Two main recommendations are proposed under this pillar of the Code:

- **Recommendation 2.1: The process of strengthening the credibility of the multiannual and annual government financial and budget forecasts should be accelerated.**
 - The exercise of reconciling the forecasts for each year of the projection period should be strengthened.
 - The analysis of the components and assumptions in connection with the macroeconomic aggregate forecasts should be developed (*within reach*).
 - The institutional framework and the organization of independent assessments should be reassessed, in particular by merging the Parliamentary Institute of Benin (IPAB) and the Government Budget Analysis, Control, and Assessment Unit (UNACEB) in the framework of a stronger institution whose mandate and independence (in financial and operational terms) should be defined by law.
- **Recommendation 2.2: The information and analysis of programming documents and budget reporting should be enhanced.**
 - The presentation of information on public administrative establishments in the budget documentation should be improved, by identifying the different sources of funding (government subsidies, own revenue, donor financing, and loans) (*within reach*).
 - A general review should be organized of the budget programs to improve their formulation in terms of specifying the objectives and results, as well as their indicators, conducted by a dedicated interministerial authority.
 - Efforts should be strengthened to inform the public and promote citizens' participation in the budget process, particularly through improved financial literacy, publication of a citizens' version of the subnational government budget, and compliance with all stages of public participation provided in the budget timetable (*within reach*).
 - All criteria should be published for the appraisal and selection of investment projects as well as feasibility studies to make the process more transparent (*within reach*).

Table 2.6 summarizes the assessment against the principles of Pillar II of the Code.

Table 2.6. Benin: Summary Assessment – Pillar II (Fiscal Forecasting and Budgeting)

Principle		Assessment	Importance	Rec.	
2.1. Comprehensiveness	2.1.1.	Budget unity	Advanced. The budget documentation covers revenue, expenditure, and financing of all central government entities on a gross basis.	Medium. The budget documentation could be supplemented with a presentation of EPA revenue (revenue excluding government subsidies and reportedly accounting for eight percent of total government revenue) by funding source.	2.2
	2.1.2.	Macroeconomic forecasts	Good. The budget documentation includes forecasts of the major macroeconomic variables and their underlying assumptions.	Medium. The credibility of the budget projections is undermined by Insufficient explanations of the underlying components and assumptions. In addition, during the period 2017-2019, the average discrepancy between real and forecast GDP was 0.13 percent.	2.1
	2.1.3.	Medium-term budget framework	Advanced. The DPBEPs and DPPDs are systematically published each year; these documents contain the budget outturn from the previous two years and projected revenue, expenditure, and financing for the next three years.	Low. No problems were observed.	
	2.1.4.	Investment projects	Good. The public investment program presents the total cost of the projects and their cost during the next three years. Major investment projects are subject to the open competitive bidding process.	Medium. Feasibility studies on public investments, that represented 36.2 percent of expenditure in 2020, are not published, which affects the transparency of the practice.	2.2
2.2. Orderliness	2.2.1.	Fiscal legislation	Advanced. The Organic Law on Budget Laws defines: (i) the content of the budget laws; (ii) the major steps in the annual budgeting process; and (iii) the roles and responsibilities of the executive and legislative branches.	Low. The steps in the annual budget procedure are effectively ordered and organized, as prescribed by the budget legislation and timetable.	
	2.2.2.	Timeliness of budget documents	Good. The Draft Budget Law is submitted to Parliament no later than one week before the opening of the October session and is approved and promulgated in December before the start of the fiscal year (January 1).	Low. The public and Parliament are effectively informed as a result of the submission and online posting of the budget documents.	
2.3. Orientation	2.3.1.	Fiscal policy objectives	Advanced. Benin is subject to the WAEMU convergence criteria, that guide its fiscal policy.	Low. All first-level convergence criteria were met during the period 2018-2019.	
	2.3.2.	Performance information	Good. While the information on performance is presented in the budget documentation, its quality and the quality of performance assessment require improvement.	Medium. The strengthening of the performance approach is a constructive factor in the success of the program budget, for which effective implementation begins in 2022.	2.2
	2.3.3.	Public participation	Good. The budget calendar provides for public participation. The government publishes a citizens' version of the DPBEP, the PLF, and LFI.	Medium. Broader public participation would be facilitated through financial literacy.	2.2
2.4. Credibility	2.4.1.	Independent evaluation	Basic. Independent evaluation remains a practice in development in Benin.	High. The discrepancies between forecasts and execution for revenue and expenditure were respectively an average of 0.3 and 0.9 percent of GDP during the period 2016-2020.	2.1
	2.4.2.	Supplementary budget	Good. While supplementary budget laws come into play when the legal conditions have been met, they are often used to regularize expenditure that has already been made.	Low. Regularization expenditure in the last two Supplementary Budget Laws does not represent very significant amounts (an average of approximately 30 percent).	

Principle		Assessment	Importance	Rec
2.4.3.	Forecast reconciliation	Basic. The practice of reconciling successive forecasts is only in the early stages in Benin.	High. The average discrepancy in budget expenditure as against execution during the period 2017-2019 represents 2.2 percent of GDP.	2.1.

III. FISCAL RISK ANALYSIS AND MANAGEMENT

Governments must report, analyze, and manage risks to public finances and ensure that the fiscal decision-making process is effectively coordinated within the public sector.

65. This section assesses the quality of analysis and management of fiscal risks according to the standards defined in the IMF Fiscal Transparency Code. Benin’s public authorities should report, analyze, and manage their fiscal risks to ensure that decision making is effectively coordinated within the public sector. The analysis and discussion address the following four essential areas:

- i. Reporting and analysis of specific macroeconomic and fiscal risks;
- ii. Monitoring, publication, and management of specific fiscal risks; and
- iii. Coordination in financial decision making in the public area.

66. Benin is facing substantial macroeconomic risks and is still sensitive to international economic conditions. Accordingly, the country is particularly exposed to changes in trade and foreign exchange policies in neighboring Nigeria, which is its largest trading partner and accounts for approximately 75 percent of its exports. Benin’s economy was adversely affected by the devaluation of approximately 50 percent of the naira in 2016 and the closing of the borders in 2019.²⁵ Benin’s economy is also exposed to fluctuations in commodity prices, including cotton, which accounts for approximately 12 percent of the country’s GDP and the bulk of its foreign exchange inflows. Last, as in other countries, 2020 was characterized by the economic impact of the health crisis, as the economic growth rate was revised to 2.3 percent from an initial forecast of 7.6 percent, and the resulting decline in revenue amounting to CFAF 221.3 billion.²⁶

67. In this context, Benin has made substantial efforts to identify and quantify certain fiscal risks. Despite the absence of any mention of fiscal risks in the legislative and regulatory texts on public financial management, the authorities have voluntarily adopted this approach to comply with international best practices. Since 2020, a fiscal risk statement has been appended to the draft budget law and presents the main risks (such as macroeconomic risks, public debt, etc.) as well as mitigation measures. It supplements the analysis prepared several years ago in the

²⁵ A 10 percent decline in the value of the naira would lead to a one percent reduction in industrial output and a 2.7 percent decline in tax revenue.

²⁶Source: [Analyse-des-risques-budgetaires-gestion-2021.pdf](#)

framework of the DPBEP, that also included a section presenting the main uncertainties potentially affecting the macroeconomic and budget framework underlying the annual budget. In addition, there is an abundant supply of documentation providing the data and information on specific risks. Table 3.1 shows a selection of the main reports and documents that are produced.

Table 3.1. Benin: Selected Reports on Fiscal Risks

Document / report	Risks considered	Responsible unit	Online (Yes or No)
Analysis of fiscal risks	Macroeconomic risks, public debt, liabilities (partial), public enterprise risks (partial), fiscal risks, natural disasters, legal risks (partial), PPPs, and institutional risks	DGAE, DGB	Yes
DPBEP	Macroeconomic risks, public debt, public corporations, subnational governments, and social security	DGAE, DGB	Yes
Debt sustainability analysis	Long-term risks	CAA	Yes
Medium-term debt strategy	Long-term risks	CAA	Yes
Annual debt strategy	Public debt risks	CAA	Yes
PLF	Public corporations, public debt, and subnational governments	DGB, CAA, DGPEP	Yes
CNSS actuarial studies	Liabilities	CNSS	No
FNRB actuarial studies	Liabilities	FNRB	No
Financial statements of public corporations	Public corporations	Public corporations	No
DGPEP annual review	Public corporations	DGPEP	Yes
Annual reports of the BCEAO and the Banking Commission	Financial sector risks (commercial banks and decentralized financial sector)	BCEAO	Yes
National Institute for Surveillance of Decentralized Financial Systems (ANSSFD) paper on the economic situation	Risks related to the decentralized financial sector	ANSSFD	No
Data on the insurance sector	Risks related to the insurance sector	DGAE	Yes

Source: Mission.

3.1. Fiscal Risk Disclosure and Analysis

3.1.1. Macroeconomic risks	Good
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68. Benin's economy exhibited low levels of volatility during 2000-2019. The country's volatility in nominal GDP is low as compared with other Sub-Saharan African countries (see Figure 3.1). Similarly, government revenue is growing steadily and smoothly as compared with other countries, with volatility in the nominal GDP growth rate and central government revenue well below the regional average for the period 2000-2019. However, a number of macroeconomic risk factors, exogenous and endogenous to the national economy, exist: fluctuations in prices of commodities (cotton) and imported products (petroleum products), exchange rates, fluctuations in external financing, etc. The assessments show that a 10 percent decline in international cotton prices below expectations would reduce the economy's growth rate by 0.19 percent and government revenue by 1.5 percent.²⁷ The COVID-9 pandemic has also severely affected economic activity. The real growth rate, that had been projected at 7.6 percent before COVID-19, was revised downwards to 3.5 percent in April 2020, then to 2.3 percent in December 2020, and finally increased to 3.8 percent according to June 2021 estimates.²⁸

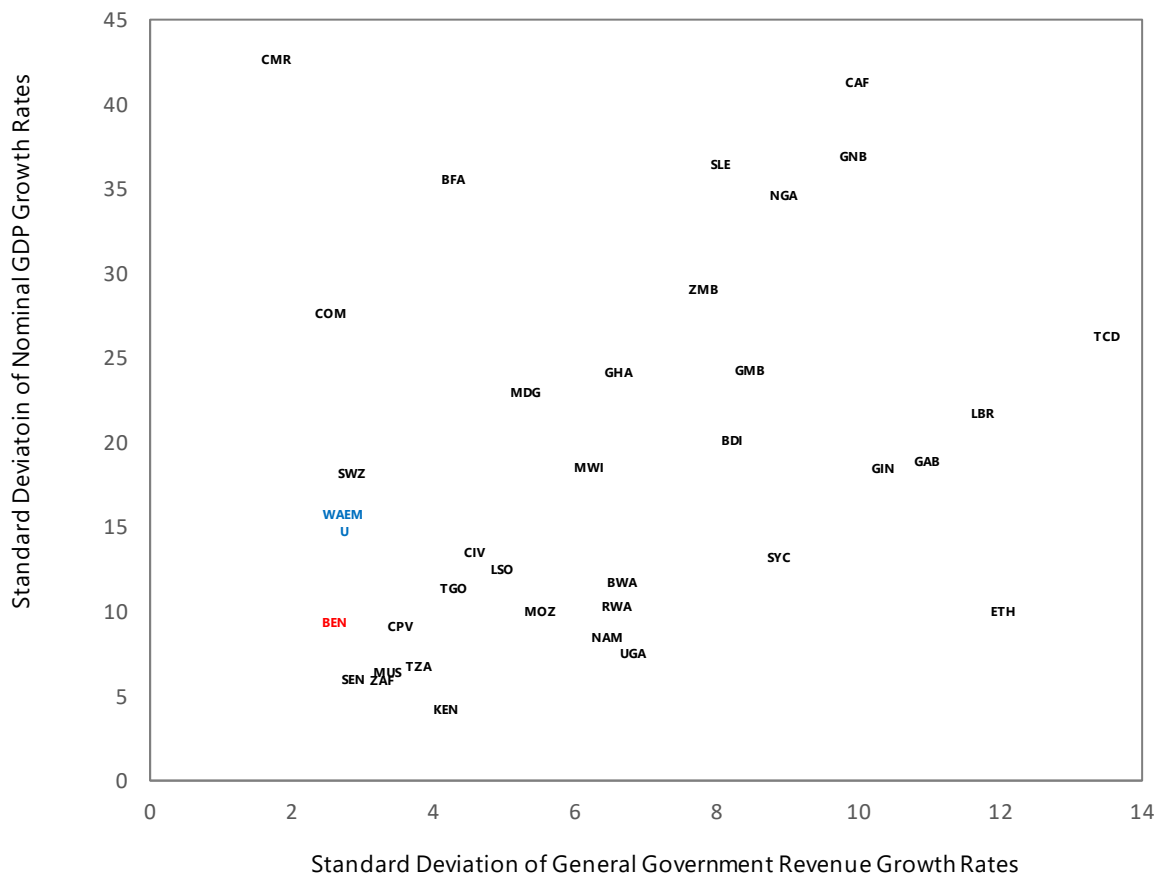
69. Two documents appended to the draft budget law every year analyzes and reports on macroeconomic risks. The DPBEP presents the factors of uncertainty related to the macroeconomic framework, for alternative (optimistic and pessimistic) scenarios to the central scenario and, in the annexes, it provides detailed tables on the impact of simulated shocks on the four macroeconomic accounts. A statement on fiscal risks established in December 2020 by the DGAE also reflects sensitivity analyses for macroeconomic fiscal risks. It does not include analyses of alternative scenarios. The paper analyzed risks related to Nigeria's trade and foreign exchange policies and risks related to commodity price fluctuations.

70. The practice does not include any probabilistic quantification of macroeconomic shocks. A macroeconomic framework model and a computable dynamic general equilibrium model are used to quantify impact of shocks. However, the measurement of impacts is limited to growth and revenue. In addition, the analysis is not based on a selection of the main macroeconomic risks based on a comprehensive inventory of macroeconomic risks and their precise description according to criteria including the probability of occurrence, potential budget impact, etc. Last, the impacts of some complex shocks, such as the closing of the borders with Nigeria, are not quantified.

²⁷ DGAE, Statement on fiscal risks, December 2020.

²⁸ DGAE, DPBEP 2020-2022, 2021-2023, and 2022-2024.

Figure 3.1. Benin: Volatility of the Growth Rate in Nominal GDP and Central Government Revenue During the Period 2000-2019²⁹



Source: IMF World Economic Outlook and Mission.

3.1.2. Specific fiscal risks	Basic
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71. In December 2020, the first fiscal risks statement was published in Benin and is now expected to become an annual exercise. Until then, the fiscal risks for the fiscal year had primarily been presented in summary form in the DPBEP framework in a chapter devoted to uncertainties potentially affecting the budget. While this section of the DPBEP will be retained, particularly for macroeconomic risks and issues, the main source of fiscal risk analysis will now be

²⁹ Abbreviations: AGO: Angola; BEN: Benin; BWA: Botswana; BFA: Burkina Faso; BDI: Burundi; CPV: Cabo Verde; CMR: Cameroon; CAF: Central African Republic; TCD: Chad; COM: Comoros; COD: Democratic Republic of the Congo; COG: Republic of Congo; IVC: Cote d'Ivoire; GNQ: Equatorial Guinea; ERI: Eritrea; ETH: Ethiopia; ATM: Gabon; GMB: The Gambia; GHA: Ghana; GIN: Guinea; GNB: Guinea-Bissau; KEN: Kenya; LSO: Lesotho; LBR: Liberia; MDG: Madagascar; MWI: Malawi; MLI: Mali; MUS: Mauritius; MOZ: Mozambique; NAM: Namibia; NER: Niger; NGA: Nigeria; RWA: Rwanda; STP: São Tomé and Príncipe; SEN: Senegal; SYC: Seychelles; SLE: Sierra Leone; ZAF: South Africa; SWZ: Eswatini; TZA: Tanzania; TGO: Togo; UGA: Uganda; ZMB: Zambia; ZWE: Zimbabwe; WAEMU: West African Economic and Monetary Union.

the fiscal risk statement, that should be published annually by the DGAE. Consistency between these two exercises should be maintained to ensure the use of a variety of approaches to draw consistent conclusions.

72. Mechanisms for identifying and analyzing fiscal risks are still being developed. To identify fiscal risks, the government now relies on a risk mapping exercise, that was not communicated to the mission, and that has not been updated since 2018, as well as on the knowledge and expertise of the main administrations concerned (such as the DGAE, CAA, and DGPEd). While the authorities have mentioned the strengthening of the mechanisms for identifying fiscal risks, so that any changes in these risks deriving from changes in the context and the economic environment (new risks, or the elimination or reinforcement of certain risks), this approach still needs to be formally established in greater detail, based on an institutional framework to be specified. In the absence of a robust, systematic identification process, it would in fact appear to be difficult to ensure that the main issues have been identified.

73. The organization of the fiscal risk report draws from international best practices. The fiscal risk analysis report includes, *inter alia*, macroeconomic risks, financial risks, public debt risks, and a number of other specific fiscal risks (government contingent liabilities, including legal risks, natural disasters, pension systems, PPPs, and institutional risks). In the context of the forthcoming fiscal years, in addition to the expected developments in terms of risk analyses, the report might also include an introductory chapter on the framework for identifying and analyzing fiscal risks, to provide a more effective presentation of Benin's approach.

74. The analyses presented in the fiscal risk statement are substantially qualitative, and the efforts in connection with the quantitative analyses should be continued. The various risks are included in a qualitative presentation, most often with details and highlighting the main issues. Quantitative analysis is less uniform. Moreover, no probability analyses are reflected in the document. While modeling is used to reflect the scale of macroeconomic risks and their fiscal impact, the analyses for the other risks are more limited or nonexistent (see Table 3.2). In the absence of more detailed information on risk mapping, it is difficult to ensure that the analyses cover the main issues. However, this quantitative approach is a welcome first step that requires further development.³⁰ Based on the available information, the mission assessed the impact of certain risks that could be enhanced with the completion of the fiscal risk analysis document (see Table 3.3).

³⁰ The quantification of fiscal risks, according to best practices, involves (i) an estimate of the scope of the potential impact; and (ii) an estimate of the probability that the risk will materialize in future. The analysis must also reflect the horizon for the occurrence of the risk (short term or long term). Such analyses might support the forthcoming exercises to prepare the fiscal risk report.

Table 3.2. Benin: Review of Quantitative Analyses Presented in the Fiscal Risk Report

Fiscal risk area	Current analysis and findings	Areas for improvement³¹
Public guarantees	Amount of public guarantees	Fiscal impact of the risk
Financial sector	Fiscal stability factors and indicators	Explicit government support for the financial sector ³²
Public Debt	Presentation of refinancing risk, interest rate risk, and foreign exchange risk	Fiscal impacts of these risks
Public corporations	Amount of public enterprise debt	Analysis of the performance of public corporations, and fiscal impacts of performance or risks (debt, liquidity) ³³
Pensions	Changes in results of the CNSS and FNRB and short-term projections	Analysis of issues of the long-term sustainability of pension systems based on actuarial studies
Natural disasters	Presentation and analysis of certain risks (climate, health)	Selection and analysis of risks identified as priorities in the National Contingency Plan
Legal risks	Presentation of the risks related to administrative vehicle accidents	Analysis of all legal risks, including expropriation or major legal proceedings (or justification of the significance of the risks related to accidents in respect of other legal risks)
PPP	Absence of quantitative analyses ³⁴	Presentation of the rights, obligations, and other commitments, including the government's contingent liabilities, in connection with PPPs, and expected revenue and payments during the term of the contracts.
Institutional risks	Absence of quantitative analyses	Identification of key institutional risks (such as on public policy execution or governance and capacity issues) and analyses of time series (such as forecasting gaps or observed volatilities)

Source: Mission.

³¹ For all risks shown in the table, an analysis might also be used to estimate the probability that they will materialize.

³² For example, by specifying direct public-sector participation in the financial sector, or by mentioning the mechanisms for guaranteeing savers' deposits.

³³ For example, on financial transfers between public corporations and units of government.

³⁴ As a result of the absence of projects in the portfolio.

Table 3.3. Benin: Specific Fiscal Risks

Selection of fiscal risks	Scope	Quantification		Cost impact	Mitigation measures	Sources
		Probability	Impact			
Macroeconomic risks						
Price of cotton	High	High	Impact on public revenue: -1.5% of GDP	10% decline in cotton prices	- Promotion of new sectors	DRB
Impact of a change in the exchange rate	High	Low	Impact on fiscal revenue: -2.7 % of GDP	10% decline in the naira against the CFA franc	- Modernization of financial authorities - Increase in density of the production fabric	DRB
Impact of the closing of borders with Nigeria	Medium	High				DRB
Impact of a major health crisis	High	Low	Impact on public revenue: -2.5 % of GDP	Impact of the COVID crisis		DRB
Public debt risks						
Refinancing risks	Low	High	Impact on public expenditure: 0.1 % of GDP	One-year deferral of debt payment (impact on interest payable as a result of a 1% increase in interest rates)	- Extension of maturities for portfolio instruments	DRB AVD
Interest rate risks	Low	Low	Not quantified		- Priority for fixed-rate debt	DRB
Foreign exchange risks	Medium	Low	Not quantified		- Priority for debt in local currency or in euro	DRB
Pension systems						
Risks related to the CNSS	Low	Low	Not quantified			

Risks related to the FNRB	High	High	Impact on public expenditure: 0.7 % of GDP	Impact of the assumption of the FNRB deficit in the government budget for the year		Report on the FNRB 2017-2022 projections
Financial sector						
Risks related to deposit guarantees for savers	High	Low	Impact on public expenditure: 0-5% of GDP	Risk of the government compensating savers if there is a shortfall in the regional deposit guarantee system	-WAMU Deposit Guarantee and Resolution Fund (FADUMA)	DRB BCEAO (Annual Reports and Report of the Banking Commission)
Risks related to the recapitalization of a financial institution	Medium	Low	Impact on public expenditure: 0.3 % of GDP	Recapitalization of a commercial bank exceeding the recapitalization of the BIBLE	- WAMU Deposit Guarantee and Resolution Fund (FAD-UMOA) - Prudential rules and capital requirements - Financial Sector Stability Analysis and stress testing	BCEAO (Annual Reports and Report of the Banking Commission)
Environmental risks						
Impacts of natural disasters	High	High	Loss of assets: 0.26% of GDP			2020 National Contingency Plan
Subnational governments						
Arrears of municipalities to be assumed by the government	Medium	High	Impact on public expenditure: 0.1% of GDP	Historical analysis of the arrears of certain municipalities in difficulty	- Monitoring of local finances - Monitoring of the budget execution of local authorities	DGCL

Public corporations						
Impact of an increase in subsidies as against the forecast levels	Medium	Medium	Impact on public expenditure: 0.1% of GDP	Volatility analysis of subsidies (operating and investment) and upward shock on subsidies	- Conduct of budget exercises with public corporations - Monitoring of performance and budget execution	DPBEP
Impact of a decline in taxes and fees as against forecast levels	Low	Medium	Impact on public revenue: negligible	Analysis of tax and fee volatility and downward shock (in 2019, taxes account for CFAF 5 billion)	- Monitoring of the performance of public corporations - Monitoring of budget execution and occurrence of business risks	DPBEP
Impact of a decline in dividends as against forecast levels	Low	High	Impact on public revenue: negligible	Analysis of the volatility of dividends and downward shock on dividends (in 2019, dividends represented CFAF 0.5 billion)	- Government shareholding strategy - Monitoring performance of public corporations - Definition of plan contracts and measures to improve management	DPBEP
Default of on lending arrangement and payment by the government	Medium	High	Impact on public expenditure: 0.2% of GDP	Default of a major enterprise on its onlending arrangements, all maturities of which are covered by the government	- Monitoring of the performance of public corporations - Monitoring of debt of public corporations	CAA DGPED
Risks associated with the recapitalization of a public enterprise	Medium	Low	Impact on public expenditure: 0.1% of GDP	Recapitalization of a medium-scale public enterprise (or partial recapitalization of a large enterprise)	- Control of public corporations (internal and external audit) - Monitoring of performance	Financial statements of public corporations Report of the DGPED

Source: Mission estimates based on the data from the authorities.

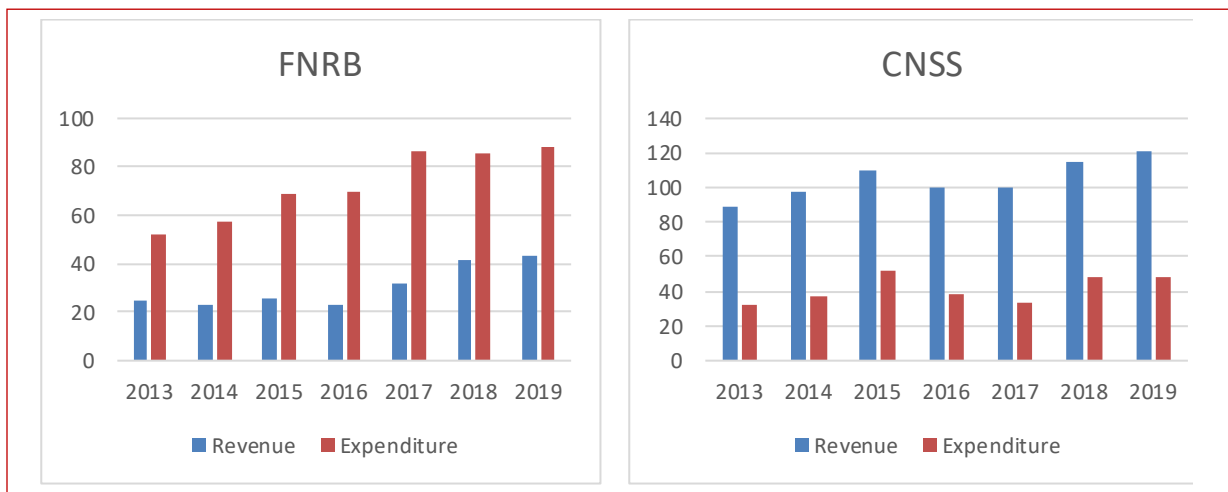
3.1.3. Long-term fiscal sustainability analysis	Not met
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75. The budget documents contain a debt sustainability analysis that is carried out annually with a horizon of approximately 20 years. The scope of debt coverage includes central government domestic and foreign debt, including IMF debt, Treasury bonds, and central government guarantees. A number of shock scenarios are being developed to test long-term debt sustainability. In addition, the long-term financial trajectories for the Social Security and Health Insurance Funds were analyzed in two actuarial studies conducted in 2016 and 2018 by the National Social Security Fund and in 2009 by the FNRB. The 2016 CNSS Actuarial Study includes population and labor market projections with a 40-year horizon. In a paper presenting the outlook for 2017-2022, the FNRB projected its financial situation for the next 30 years based on reform scenarios, without explaining its methodology or the macroeconomic assumptions that were used.

76. However, the authorities of Benin do not regularly publish the analyses of the financial trajectories of the social security and health insurance funds. The situation of the CNSS and FNRB revenue and expenditure and their projection for a three-year period are available in the multiannual budget and economic programming papers (see Figure 3.2). However, the actuarial studies of the CNSS are not available at its website. The FNRB is preparing to launch an actuarial study more than 10 years after a first one conducted in 2009. Its current deficit was estimated at 0.7 percent of GDP in 2017, and its report on projections for 2017-2022 shows that, without the reform, the Fund's deficit would persist, amounting to more than [CFAF] 100 billion in 2050, equivalent to 1.1 percent of GDP in 2020. This situation poses a significant fiscal risk during the projection period.

77. In addition, in debt sustainability analysis reports, only the information on the primary deficit, gross financing requirements, and macroeconomic assumptions underlying these developments are provided. The budget documentation does not contain any information on long-term fiscal sustainability and expected trends in overall net worth.

Figure 3.2. Benin: Developments in CNSS and FNRB Revenue and Expenditure
(In billions of CFAF)



Source: DPBEP and calculations by the mission.

78. The economy of Benin faces a number of complex dynamics influenced by population growth, and requires a thorough analysis of the long-term fiscal developments.

Long-term policy development should focus on strategies and potential responses to changing social and economic contexts. It should also provide appropriate responses to structural problems, including the persistence of a high level of public-sector liabilities with pension funds.³⁵ It might be important to develop long-term budget projections owing to the prospect of increased spending on retirement and health care. Such an analysis should give policy makers a better idea of the fiscal challenges that lie ahead. It would also facilitate the discussion of long-term strategies and policies designed to alleviate future fiscal pressures. Actuarial studies should also be published, and budget sustainability analyses should be carried out using a range of macroeconomic and demographic assumptions (see Annex VI).

3.2. Fiscal Risk Management

3.2.1.	Budgetary contingencies	Basic
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79. In practice, different types of reserves are provided in Benin to address unforeseen and emergency situations. First, the Article 17 of the Organic Law of 2013 (LOLF)³⁶ provides that global appropriations, established as allowances, are provided in a budget law to cover accidental and unpredictable expenditure. Pending the full implementation of the organic provisions, an envelope of unallocated global appropriations is provided within the Ministry of

³⁵ During the discussions, the mission’s talking partners mentioned public sector arrears of approximately CFAF 77 million (including public establishments and corporations) with the CNSS.

³⁶ Organic Law 2013-14 of September 27, 2013 on Budget Laws.

Economy and Finance to cover this type of expenditure. Second, the budget of Benin provides appropriations to cover additional expenditure deriving from natural disasters. A Special Treasury Account (CST) named "Disaster Prevention and Management," is designed for that purpose. The cumulative amounts of these two envelopes represent an average of approximately 10 percent of the Initial Budget Law appropriations during the past four years (see Table 3.4), representing a substantial portion of the budget as compared with other countries (an average of 1-3 percent of appropriations established³⁷).

Table 3.4. Benin: Contingency Figures in the Budget

(Billions of CFA francs)	Total government budget expenditure	Reserves, Initial Budget Law			Percent of reserves / budget expenditure
		Special appropriation accounts	Common expenditure	Total	
2018	1,406.32	1.30	160.24	161.54	11.5 %
2019	1,373.04	0.80	137.68	138.48	10.1 %
2020	1,486.90	1.5	166.75	168.25	11.3 %
2021	1,780.23	3.00	238.37	241.37	13.6 %

Source: Budget Laws, 2018, 2019, 2020, and 2021.

80. The mechanisms for estimating these reserves are unclear and the budget execution documents cannot be used to establish the linkages with the various risks and shocks they are designed to cover. First, the mechanisms for calculating these reserves are not provided in detail in the budget documentation. It would seem that, as indicated by the Directorate General of Budget, the authorities use historical execution observed during in previous years as a basis, without any linkages with the analysis of fiscal risks developed during the past few years. The use of these appropriations is also not listed in detail in the quarterly budget execution reports (RTEB), even if the initial envelope has been fully consumed or has even been exceeded during some years. Accordingly, the RTEBs do not make it possible to identify the shocks to which these appropriations were applied, in 2020 (COVID-19, for example), or in 2019 (there are no significant shock to justify the full consumption of the envelope). Under these conditions, the overall appropriation envelope would appear to be more of a management facility than a reserve for unforeseen events. In addition, some appropriations appear to be pre-allocated within this overall envelope (such as contributions to international organizations, conference expenses, mission expenses, feasibility studies, support for the modernization of information systems, etc.) and therefore cannot be considered as general reserves to cover budget contingencies. The implementation of program budgeting, including the preparation of an allocation for unforeseen and incidental expenses, will provide an opportunity to specify more effectively the basis for calculating these allocations and to report on their use more accurately.

81. Conditions for the use of global appropriations are not specified. The second annex to the annual circular announcing the appropriations specifies the practical mechanisms sector

³⁷ Source: Fiscal Transparency Handbook <https://www.imf.org/en/Topics/fiscal-policies/fiscal-transparency>

ministries can use to access the global appropriations (such as prior technical opinions from the DGB, production of a financing sheet validated by the DGB, production of supporting documentation, etc.). However, the type of situation that may allow the release of appropriations thorough the global appropriation envelope, and the conditions for that purpose are not specified. Benin might draw from practices established in some countries (see Box 3.1) to devise a better framework for the terms and conditions for using these appropriations.

Box 3.1. Rules for Use of the Budget Contingency Reserve in South Africa

In South Africa, use of the budget contingency reserve is limited to “inevitable and unpredictable” expenditure. Situations that do not correspond to this meaning are defined in the implementation rules. Accordingly, the following expenditure items are not inevitable and unpredictable: (i) expenditure known at the time of budget preparation but that has not been adopted in this context; (ii) increases deriving from tariff adjustments or price increases; or (iii) expenditure relating to an increase in public service resources or the creation of new services.

Natural disasters caused by extreme climate conditions are a good example of an unavoidable and unpredictable situation.

Source: South African Government, 2014.

3.2.2. Asset and liability management	Basic
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82. Borrowing is authorized by the Budget Law, and only the Minister responsible for Finance may undertake borrowing on behalf of the government. Financing requirements are assessed under the Budget Law, and only the Minister responsible for Finance is authorized to arrange the borrowing required to finance the budget, both through financing in local and foreign currencies. Moreover, Article 9 of Decree 2015-581 specifies that only the Minister responsible for Finance is authorized to undertake financial commitments for the government. Public debt management is under the authority of the *Caisse Autonome d’Amortissement* (CAA).

83. Benin is subject to the debt regulations defined by the WAEMU Convergence Pact. While draft budget laws make it possible to assess requirements for the forthcoming fiscal year, they do not define a binding debt ceiling. However, Benin is required to comply with the rule of 70 percent of GDP defined in the framework of the WAEMU area Convergence Pact. Benin also defines the financing plan in the annual strategy paper annexed to the Budget Law. At the end of 2020, despite a recent increase in connection with the COVID-19 health crisis (+5 percentage points of GDP), the debt ratio of 46 percent of GDP is still well within this requirement.

84. Fiscal risks in connection with public debt are the subject of a detailed analysis in several documents. The medium-term debt strategy (SDMT), the annual government debt strategy, the DPBEP, and the annual report on fiscal risks all contain the factors for the analysis of fiscal risks related to public debt. These analyses cover refinancing risks, interest rate risks, and

exchange rate risks. They are based, in particular, on an analysis of the debt amortization profile during the next few years. Last, the CAA also conducts a debt sustainability analysis.

85. The authorities are now taking stock of financial and nonfinancial assets. A number of projects are in progress in connection with the use of an accrual accounting system and the preparation of the government balance sheet, to ensure that all of the government’s financial and nonfinancial assets are adequately identified. Accordingly, the survey of the nonfinancial assets and liabilities of the various ministries will be conducted by the Directorate General of Materials and Logistics (DGML). Similarly, a consolidated view of financial assets is yet to be determined, even though there is currently no overview of all government holdings (for example, DGPEP does not track some financial holdings) and government cash flow is still divided among several accounts, despite the creation of the Treasury Single Account.

86. The government’s assets are not subject to risk analysis or public reporting. There is currently no analysis of the fiscal risks in connection with the government’s assets (risks that could lead to the impairment of certain assets, etc.). In connection with the exercises mentioned above, fiscal risk analysis exercises could be conducted so that the government’s assets and liabilities can be monitored more effectively.

87. The legal framework for the disposal and acquisition of key assets stands to be strengthened, particularly with a strategy for the government’s assets and liabilities. While major acquisitions or transfers have been authorized by law (particularly in the Budget Law), there is currently no regulatory framework for the systematic supervision of key acquisitions or transfers. Such a framework would allow such operations to be monitored more effectively. Moreover, in accordance with international best practices, the development and publication of a government asset and liability strategy would ensure consistency between the planned operations and the objectives of public administrations for managing their own assets and liabilities.

3.2.3.	Guarantees	Good
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88. The legal framework for providing guarantees appear to be complete and precise. The general framework for the government guarantee system is covered by 2013 LOLF, and specifically, in articles 17 and 46³⁸ that establish the rules of budget presentation, the limits and the rules for the sovereign guarantees provisions, and by various regulatory texts that specify the relevant mechanisms. Among other things these texts specify the following: (i) the scope of publicly-guaranteed debt; (ii) the limits for granting guarantees and the annual establishment of a guarantee ceiling within the debt management strategy document annexed to the Budget Law; (iii) questions of competence (such as exclusive competence of the Minister responsible for Finance to grant government guarantees); (iv) entities eligible for government guarantees or

³⁸ <https://budgetBenin.bj/wp-content/uploads/2020/04/LOLF-PROMULGUEE.pdf>

onlending; and (v) technical conditions for the management of guarantees and onlending arrangements (such as the processing fee, representing one percent of the guaranteed amount, securing reimbursements with the opening of an escrow account, etc.).

89. In practice, all guarantees are tracked and monitored. In accordance with the legal framework, the CAA ensures the processing, centralization, and monitoring of guarantees and loans subject to onlending arrangements. Where guarantees are concerned, the Annual Government Debt Strategy Paper appended to the Budget Law and the Medium-Term Debt Strategy specify the government’s strategy for issuing new guarantees. A statistical debt bulletin is also produced and published quarterly, enabling developments in guarantees to be monitored closely. The Debt Management Report takes stock of existing guarantees and their outstanding balances. All of these documents are available online, at the CAA’s website.³⁹ The only guarantee listed to date concerns the SBEE, in connection with a loan of CFAF 27 billion granted in 2018. This information is also available in the fiscal risk analysis paper annexed to the Budget Law and published at the DGB’s website.

90. The existing framework should be supplemented to comply with the provisions of the LOLF and include an assessment of risks of occurrence. The special account for guarantees and endorsements (Article 46 of the LOLF) and the allocation to cover the execution of guarantees reflected in the special account have yet to be produced. The objective of the authorities is to start producing this information in 2022. This information could be reflected in the annual performance document of the Special Guarantee and Endorsement Account. It might also be included in the fiscal risk analysis paper and/or in the annual public debt strategy paper annexed to the Budget Law.

3.2.4.	Public-private partnerships (PPP)	Not met
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91. Despite high ambitions for the development of PPPs, it seems that there are now no PPP projects in the portfolio. Public-private partnerships occupy an important place in the framework of the developments envisaged in Benin. They are present in the framework of the government’s action program (2016 -2021), in which they represent 61 percent of the projects to achieve ambitious targets in terms of the deployment of infrastructures in the energy and water sectors, or in road or administrative infrastructures. However, no PPPs have been concluded to date, even though several projects that have been presented in the PPP catalog are in the feasibility study phase.

92. The legal framework for PPPs, developed in 2017, has a number of weaknesses in terms of managing the fiscal risks associated with these projects. The legal framework for

³⁹ <https://caa.bj/category/publications-et-rapports/>

PPPs is established by Law 2016-24 of June 28, 2017.⁴⁰ As indicated in public investment management assessment report,⁴¹ this framework only partially covers the fiscal risks potentially linked to PPPs. Accordingly, it does not establish a ceiling for explicit or conditional commitments that may be made under PPPs. It also facilitates spontaneous bids, that require special attention in the institutional process. Last, there is no publication requirement for revenue, expenditure, rights, obligations, or commitments of the government with relation to public-private partnerships.

93. In anticipation of the first PPP contracts,⁴² an institutional and risk analysis framework has been established. Its effectiveness should be assessed when the contracts have been executed. The institutional framework relies primarily on the Ministry of Finance and the Analysis and Investigation Office (BAI), that reports to the Presidency, to conduct feasibility studies and to assess fiscal risks. Where the Ministry of Finance is concerned, the DGB is involved primarily in connection with feasibility and fiscal sustainability studies. However, the mission was not given access to such studies. In addition, the sector ministries are still involved in the selection and monitoring of projects. Last, the Investment and Export Promotion Agency (APIEX) is involved in promoting PPPs to potential partners. The analysis of fiscal risks related to PPPs and their reporting are mentioned in the annual fiscal risk report. At this stage, they are not analyzed owing to the absence of underlying projects. The methods for quantifying these risks are also not provided in detail.⁴³

3.2.5. Financial sector exposure	Not met
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94. Benin’s financial sector is part of a framework of regulation and supervision at the community level. Banking regulation is largely decided at the level of the West African Monetary Union, and the rules are transposed to the national level. In 2016, two major decisions were made to strengthen prudential supervision in the WAMU area and to monitor banking

⁴⁰ Under this legal framework, the final decision to enter into a public-private partnership and the approval of the preparatory steps are incumbent on the Council of Ministers. Feasibility and budget sustainability studies are also required. The study and validation of the case are incumbent primarily on the National Public Procurement Control Directorate, under the authority of the Ministry responsible for Finance.

⁴¹ For a more precise analysis of the legal framework for PPPs in Benin, see the 2019 PIMA report (<https://www.imf.org/en/Publications/CR/Issues/2020/01/27/Bénin-Technical-Assistance-Report-Public-Investment-Management-Assessment-48986>).

⁴² An initial contract on the Glo-Djigbé International Airport is reportedly in the process of being concluded. The contract, initially identified as a PPP, mobilizes both public and private Chinese capital. However, the Mission does not have detailed information on this project.

⁴³ The PIMA report mentioned above recommended that the various players involved in PPP management should be trained in the management of PPPs using the fiscal risk assessment model (PFRAM) methodology, to build capacities to analyze the fiscal risks related to PPPs.

groups on a consolidated basis.⁴⁴ The banking chart of accounts was also revised. The banking regulations are now approaching the Basel II and III frameworks, and accordingly, international standards. Benin is also a member of the Inter-African Conference of Insurance Markets (CIMA), and its insurance sector is governed by the CIMA Code. Last, decentralized financial systems (microfinance institutions) also benefit from regulation and monitoring at community level.

95. The sector is characterized by the substantial presence of international credit institutions, creating exposure to the regional and international economic conditions.

Benin has 14 banks licensed by the BCEAO, all of which are banks or subsidiaries of international or subregional banks, with the exception of *Banque Internationale pour l'Industrie et le Commerce*, whose shares are substantially publicly held.⁴⁵ We can expect the risks in connection with foreign ownership to be systemic or linked to any economic and political crises that may occur in the parent companies' home countries. Few of such risks have materialized in recent years.

96. Monitoring of the stability of Benin's financial sector mobilizes numerous institutions, both at community and national levels.

At the community level, monitoring and supervision of the financial sector are organized in connection with the BCEAO; the WAMU Banking Commission, that was established in 1990, and for which the texts were revised in 2007; and the Financial Stability Committee that was established in 2010. The purpose of the Financial Stability Committee is to monitor risks potentially affecting the stability of the financial sector, including at the macroprudential level. In addition, the BCEAO monitors decentralized financial systems and the relevant risks. At the national level, Benin's Insurance Directorate monitors the insurance sector and compliance with the CIMA regulations, and the National Agency for the Surveillance of Decentralized Financial Systems (ANSSFD) monitors the microfinance sector. A Directorate General of the Financial Sector should soon be created within the Ministry of Economy and Finance,⁴⁶ with broad responsibilities. It will be responsible for implementation of the national policy on regulation, and for the regulation of the overall national financial sector, with relation to the community authorities. It will be responsible for consultations with the financial sector and will have broad duties involving the insurance market, including its surveillance. Last, it will be responsible for implementation of the national financial inclusion strategy.

97. No analyses have been published on financial sector stability. The BCEAO conducts periodic analyses of the financial sector and its stability, that also include stress testing exercises.

⁴⁴ Decision 013/24/06/2016/CM/UMOA of the WAMU Council of Ministers, adopted at its session of June 24, 2016, establishing the prudential system applicable to credit institutions and financial companies of the WAMU, and its annex; Decision 014/24/06/2016/CM/UMOA of the WAMU Council of Minister adopted at its session of June 24, 2016 on Consolidated Supervision of Parent Companies of Credit Institutions and Finance Companies in the WAMU.

⁴⁵ No precise shareholding information was not communicated to the mission.

⁴⁶ See Decree 2021-307 of June 9, 2021 on the Powers, Organization, and Operation of the Ministry of Economy and Finance.

These activities are strictly internal and are not published. However, the balance sheets and income statements of banks and financial institutions⁴⁷ and analyses on compliance with prudential standards are published in a consolidated, anonymous form, in the annual report of the Commission. These data are also included in the annual report on fiscal risks.

98. Benin's banking sector seems to be in a good position in terms of the current prudential standards. Accordingly, at a consolidated level, the different solvency ratios are above the regulatory thresholds, which is also true for the leverage ratio or the liquidity ratio (see Table 3.5). In addition, most commercial banks would appear to be observing these ratios. Only one bank (not identified in the BCEAO documentation) has failed to comply with the solvency requirements (T1 and total solvency ratios).

Table 3.5. Benin: Presentation of the Key Prudential Ratios

Ratio	Value at December 31, 2020	Regulatory threshold
Minimum ratio (CET 1)	15.03%	6.25%
Minimum ratio (T 1)	13.68%	7.25%
Total solvency ratio	14.53%	9.5%
Leverage ratio	5.7%	3%
Liquidity ratio	111.6%	75%

Source: BCEAO, *Annual Report of the Banking Commission*.

99. There are several sources of explicit support between the financial sector and central government, without any specific analyses or publications. The main types of support (see Box 3.2) would appear to be of varying degrees of importance, potentially legitimizing differentiated management and analyses in order to limit the risks that fiscal risks will materialize.

100. The creation of the *Caisse des Dépôts et Consignations* in 2018 also entails fiscal risks similar to those created by the financial sector. Although the *Caisse des Dépôts et Consignations du Benin* (CDCB) is not a regulated financial institution, it will engage in investment, lending, and guarantee activities similar to those of a bank or financial institution. The government, the shareholder in the organization, is the guarantor of last resort for the CDCB's liabilities. Monitoring of its equity capital is aligned with the current regulations in the banking sector and it has a capital ratio of 20 percent (pursuant to Basel II / Basel III standards). Its equity capital, amounting to CFAF 78 billion, derives primarily from its initial capitalization of CFAF 10 billion and from asset transfers.⁴⁸ To date, reporting on the activities and commitments of the CDCB would seem to be limited and the information cannot be used to assess the issues and risks associated with it.

⁴⁷ Albeit with a delay. For example, in March 2021, the 2019 items were published:

<https://www.bceao.int/sites/default/files/2021-03/Bilans%20et%20comptes%20de%20r%C3%A9sultat%20des%20Banques%20et%20r%C3%A9tablissements%20financiers%20de%20l%27UMOA%20-%202019.pdf>

⁴⁸ Transfers of property assets from the government pursuant to a decision of the Council of Ministers.

Box 3.2. Key Sources of Explicit Fiscal Support to the Financial Sector

The main sources of support for the financial sector include:

- Direct government holdings in several financial institutions, including *Banque Internationale pour l'Industrie et le Commerce* (BIIC)⁴⁹ and *Africaine des Assurances du Bénin* (AAB).⁵⁰ It is the country's ninth largest bank, with a total balance sheet of CFAF 265 billion at end-2020. Similarly, the shareholding in AAB is partly public (the government accounts for just under 3 percent, and the CNSS, for 15 percent). These entities do not enjoy exemptions as a result of their shareholding and are subject to the same supervision as other establishments. The consolidated list of government holdings in the financial sector is not published, meaning that there is no overview of the government's exposure in connection with the sector.
- Postal Service of Benin. In addition to carrying out its postal tasks, this enterprise offers a number of financial services (such as deposit taking, credit distribution, and payment services) but is not subject to the financial supervision of the BCEAO and does not have a banking license or any other specialized authorization in connection with the financial sector. It is supervised primarily by the regulatory authority for electronic communications, postal service, and press distribution (ARCEP) owing to its presence in the postal and telecommunication sector.⁵¹
- Promotion and support for microenterprise development (PADME), a microfinance association established by the government to support microenterprises. With a balance sheet of CFAF 37 billion at end-2020, it is the largest microfinance institution in Benin. The company will be converted into a public enterprise with CFAF 25 billion in public shareholding.
- The National Microfinance Fund (FNM) is a public institution created by Decree 2006-301 of June 27, 2006⁵² to support the government's microfinance policy. Accordingly, the FNM, with a balance sheet of more than CFAF 50 billion, carries out financing activities similar to banks (lending and guarantees, for example) for the financing of other corporations (in this case, microfinance institutions). Although the NMF conducts internal risk analyses (more specifically on counterpart risks in order to limit the risks of default⁵³), it does take savings from the public, and it is not licensed (as a bank or in connection with the decentralized financial sector), is not regulated, and is not supervised by the BCEAO. However, it benefits from internal and external control mechanisms (in particular, it has been controlled by the IGF).
- The community deposit guarantee facility (the UMOA Deposit Guarantee and Resolution Fund–FGDR UMOA) was established in 2014 to insure savers' deposits in the event of the failure of a banking institution. This Fund should receive money from commercial banks to limit the risks of recourse to public funds. However, no analysis is available for the UMOA FGDR, and therefore the adequacy of its resources to risks cannot be estimated. At end-2020, bank deposits in Benin represented CFAF 1.513 trillion (22 percent of GDP) in demand deposits and CFAF 1.728 trillion in time deposits (25 percent of GDP).
- The deposit guarantee mechanism at the community level concerning the decentralized financial system, that is being deployed and for which no analyses or studies are available. At end-2020, demand deposits placed in decentralized financial systems accounted for CFAF 67 billion (1 percent of GDP) and time deposits amounted to CFAF 60 billion (1 percent of GDP).

Source: Mission.

⁴⁹ The public sector also has small minority shareholdings in United Bank for Africa Bénin and Coris Bank International Bénin.

⁵⁰ We should note that the CNSS is also a shareholder in these entities.

⁵¹ The Mission did not obtain any information on the accounts of the Postal Service of Benin.

⁵² The Charter of the National Microfinance Fund (FNM) has been regularly amended, and the last change was made in 2019.

101. This lack of information concerning explicit support to the financial sector prevents an adequate assessment of financial sector related risk, although the government has intervened in the financial sector during recent years. International experience has shown that fiscal risks in connection with the financial sector have traditionally been substantial. While they have also materialized in Benin, no complete history was communicated to the mission. The government has intervened on a preventive basis to avoid certain bankruptcies, such as for *Banque Internationale du Bénin* (BIBE) in 2014 (subsequently held 55 percent by the government and 45 percent by the CNSS) and for *Banque Africaine pour l'Industrie et le Commerce* (BAIC) in 2017.⁵⁴ The two entities were merged in 2020 to create the BIIC.⁵⁵

3.2.6. Natural resources	Not applicable
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102. To date, no significant natural resources are being exploited in Benin and the potential resources are not being estimated. Extraction resources contribute just under 0.4 percent of GDP (see Table 3.6). However, potential mineral resources are known on the basis of previous explorations. The country's main identified resources are gold, construction materials (such as limestone and marble), iron, and phosphates. Nickel, rutile, zirconia, and diamonds are also areas of exploration for the country. However, no reliable estimates, in terms of volume or value, are available, nor are these resources and their impacts reflected in economic or budget documents, as a result of their negligible weight in the economy to date.

Table 3.6. Contribution of the Extractive Sector to Benin's Economy

Extractive activities (Billions of CFA francs)	2015	2016	2017	2018	2019	2020
Value added of the extractive sector	26.09	26.56	28.27	30.50	34.40	39.08
Share of GDP	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Value of exports	-	-	-	0.01	0.27	0.29

Source: *National Statistics and Economic Analysis Office*.

103. The contribution of natural resources to the country's economy could change in the future. Since 2016, the government has intensified its research activity with a view to future exploitation starts. A new mining code, that was being discussed in the National Assembly at the time of the mission, also aims to make the sector more attractive and to develop investment.

⁵³ For example, on the microcredit program for the poorest sectors, with a fund of nearly CFAF 20 billion, the FNM disbursed CFAF 72 billion at September 30, 2019 (including the disbursement of reimbursements), with a reimbursement rate of 74 percent.

⁵⁴ The exact amounts of various interventions and recapitalizations were not communicated to the mission.

⁵⁵ The capital stock of BAIC, initially CFAF 14 billion, was increased to CFAF 24 billion during the operation, that was fully subscribed by the government and the public sector.

3.2.7. Environmental risks	Basic
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104. Benin faces several types of risks in this area that are clearly identified and published, but their financial impact is subject to different interpretations despite a high level of priority. The World Disaster Risk Index (WRI) established by the United Nations System ranks Benin thirtieth among the world’s highest risk countries and tenth in Sub-Saharan Africa.⁵⁶ In terms of idiosyncratic risks, Benin has experienced episodes of flooding (such as in 2010) that caused significant losses and damage (approximately CFAF 126 billion) and have affected the agricultural sector. Although its human consequences were limited, the COVID-19 pandemic had a significant economic and budget impact, notably resulting in a loss of GDP growth in 2020 (3.8 percent, as against an initial forecast of 7.6 percent).⁵⁷ In terms of progressive risks, Benin is facing phenomena related to climate change, such as coastal erosion or deforestation. The National Contingency Plan⁵⁸ that was drawn up in 2020 analyzed the main hazards facing Benin and classified them according to their probability of occurrence (see Table 3.7). This activity brought to light the following major risks: floods, epidemics, fires, and coastal erosion. The latter two risks are not included in the fiscal risk analysis and are not subject to quantified estimates.

Table 3.7. Classification of the Main Environmental Risks in Benin

Hazards	Vulnerability		Occurrence of hazard		Risk	Total effective	Ranking
	Effective	Frequency	Effective	Frequency			
Floods	13	12.38%	14	12.33%	1.65%	27	1
Epidemics	14	13.33%	12	11.43%	1.52%	26	2
Sociopolitical crises	12	11.43%	9	8.57%	0.98%	21	4
Piracy	4	3.81%	7	6.67%	0.25%	11	10
Fires	10	9.52%	12	11.43%	1.09%	22	3
Nuclear, radiological, biological, and chemical risks	6	5.71%	5	4.76%	0.27%	11	10
Earthquakes	2	1.90%	3	2.86%	0.05%	5	13
Marine pollution	6	5.51%	7	6.67%	0.38%	13	7
Strong winds	3	2.86%	5	4.76%	0.14%	8	12
Earth displacement	1	0.95%	1	0.95%	0.00%	2	14
Landslides	1	0.95%	0	0.00%	0.00%	1	15
Coastal erosion	9	8.57%	12	11.43%	0.98%	21	4
Terrorism	9	8.57%	3	2.86%	0.24%	12	9
Transhumance	8	7.62%	9	8.57%	0.65%	17	6
Drought	7	6.67%	6	5.71%	0.38%	13	7

Source: National Contingency Plan, 2020.

⁵⁶ <https://reliefweb.int/sites/reliefweb.int/files/resources/WorldRiskReport-2020.pdf>

⁵⁷ Sources: DPBEP 2022-2024.

⁵⁸ https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/20200311_pcn_final_final_Bénin.pdf

105. The financial instruments in place to address environmental risks have limited resources, without a clear linkage to risk estimation. There are two existing instruments: the National Disaster Response Fund (FONCAT) and the Environment and Climate Adaptation Fund (FNEC). The FNEC must ensure that financial resources are available to facilitate the government's response to natural disasters and epidemics. Its budget, with the support of a special appropriation account managed by the MEF, would appear to vary from year to year (CFAF 1.5 billion in 2020, and CFAF 3 billion in 2021), and it does not appear to be linked to an estimate of the risks it is intended to cover. The FNEC is established as public institution that reports to the Ministry of Living Environment and Sustainable Development (MCVDD); it finances projects to fight climate change and has a limited budget (CFAF 24 million in 2020). Benin is also a member of *African Risk Capacity*,⁵⁹ an African Union initiative to help countries respond to natural disasters.

106. Despite extensive documentation, Benin's environmental risk strategy appears to be fragmented and difficult to assess. Several strategic documents have been prepared in recent years without any true overall consistency. With regard to disaster management, a National Policy on Integrated Disaster Prevention and Management (NRGIC) was developed in 2016 and a National Contingency Plan was updated in 2020.⁶⁰ In terms of the risks related to climate change, a strategic plan for the use of the FNEC has been in place since 2016.⁶¹ Under the Paris Climate Accords, Benin submitted its nationally-determined contribution in 2015, that provides details of the issues and costs of sustainable development. There are also strategic documents at sector level (such as in the agricultural sector). Each of these documents meet a specific requirement (such as to find financing, or sector activity) and there is no coordination between them. They do not systematically quantify risks and mitigation requirements (for example, the agricultural strategy for climate change includes cost information, unlike the FNEC strategic plan). Efforts have been in progress since 2019 to develop a National Climate Change Adaptation Plan (CTPNA) to provide a comprehensive, coordinated overview and to promote the integration of climate change issues into public policies and ensure their implementation.

3.3. Fiscal Coordination

3.3.1.	Subnational governments	Basic
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107. Revenue and expenditure of the decentralized subnational authorities (CTD) are monitored and published relatively fully, despite their limited scale. CTDs are comprised of 77 municipalities, some of which have special status (Cotonou, Porto Novo, and Parakou). They receive earmarked and non-earmarked transfers from the Community Development Support

⁵⁹ <https://www.africanriskcapacity.org/>

⁶⁰ https://pspdb.plan.gouv.bj/server/storage/app/PolitiqueFichiers/73_PNPGIC-CONSOLIDE-270616--IMPRESSION.pdf/

⁶¹ <https://www.f nec-Bénin.org/docs/Plan-Strategique-2017-2021-FNEC-VF.pdf>

Fund (FADEC) as well as own resources through, in particular, the proceeds of certain fees and taxes that are transferred to them. Revenue and expenditure of the decentralized subnational authorities would appear to be relatively stable and have accounted for less than 1 percent of GDP during recent years (see Table 3.8). These authorities are accurately tracked through several documents.⁶² Accordingly, the DPBEP devotes several sections to CTDs in accordance with the LOLF (Articles 56 and 58). It presents revenue and expenditure execution during the past four fiscal years, as well as the three-year outlook. An analytical memorandum is also appended each year to the Draft Budget Law and provides more precise details of the different categories of revenue and expenditure from which the CTDs benefit. The DPBEP and the analytical memorandum provide aggregated information at the national level. At the decentralized level, the National Local Finance Commission (CONAFIL) is responsible for supporting and monitoring financial management of the municipalities. On its website,⁶³ it publishes detailed revenue and expenditure information for each decentralized public entity as well as comparative ratios (such as tax revenue per capita, capital expenditure/total expenditure, etc.). In addition, CONAFIL prepares a publication each year analyzing the financial situation of the municipalities.⁶⁴ Although very complete, this information is available with some delay. At the time of the mission, the latest data available at the website dated back to 2018 for revenue, expenditure, and ratios. The last available physical publication dates back to 2016.

Table 3.8. Benin: CTD Revenue and Expenditure 2018-21
(In billions of CFAF)

	2018	2019	2020	2021 (forecast)
Revenue	81.1	90.2	84.2	87.3
Expenditure	66.0	67.2	68.5	70.4
Percent of GDP (expenditure)	0.8%	0.8%	0.8%	0.8%

Sources: DPBEP, CONAFIL, and calculations by the mission.

108. While subnational governments do not have recourse to borrowing in practice, it is not subject to any rules or limits. The main texts⁶⁵ that address the issues of borrowing for CTDs are focused primarily on procedural rules (such as the obligation to submit a detailed list of their debts periodically to the Minister responsible for Finance, whether or not they are endorsed by the government). These texts also mention the Prefect's control over the borrowing activities of the municipal authorities. However, there are no rules limiting or capping recourse to

⁶² <https://budgetBenin.bj/wp-content/uploads/2020/12/DPBEP-2021-2023-Document-Principal.pdf> and <https://budgetBenin.bj/wp-content/uploads/2020/10/Note-Analytique-sur-les-Finances-Locales-gestion-2021.pdf>

⁶³ <http://conafil.org/>

⁶⁴ <http://conafil.org/index.php/publications-top/les-communes-du-Bénin-en-chiffres>

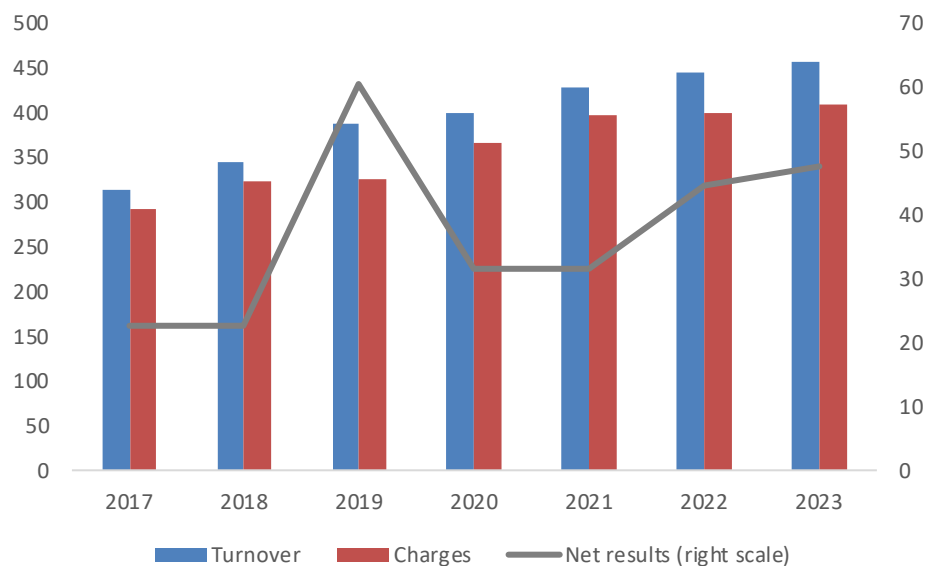
⁶⁵ Law 97-029 of January 15, 1999 on Organization of the Municipalities the Republic of Benin; Decree 2005-374 of June 23, 2005 establishing the Mechanisms for Borrowing by the Municipalities and the Relevant Guarantees; Decree 2015-581 of November 18, 2015 on the public debt and management policy in Benin.

borrowing. This factor merits special attention, as the government intends to strengthen access for CTDs to borrowing through the establishment of a single window managed by the CAA.

3.3.2. Public corporations	Basic
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109. Benin’s public corporations are of major importance in many economic sectors and are largely involved in public policy implementation. The public enterprise sector is comprised of 24 nonfinancial public corporations within the legal framework defined by Law 2020-20 of September 2, 2020. Since 2016, DGPED has been responsible for monitoring the government’s portfolio, with corporations also subject to line ministries oversight. Public corporations account for substantial weight in Benin’s economy. In 2019, public enterprise revenue amounted to CFAF 386 billion (5.9 points of GDP), with a net result of CFAF 60 billion (1 point of GDP) (Figure 3.3). Some corporations operate in a monopoly⁶⁶ situation in key economic sectors such as the supply of energy, drinking water or transportation. Many public corporations are also stakeholders in the implementation of government sector public policies (water, energy, communications, forest resource management, or transportation policy). To improve internal governance, some of the largest public corporations (SBEE, PAC) have been placed under a management mandate in the context of a 10-year performance agreement.

Figure 3.3. Benin: Developments in the Financial Situation of Public Corporations
(In billions of CFAF)



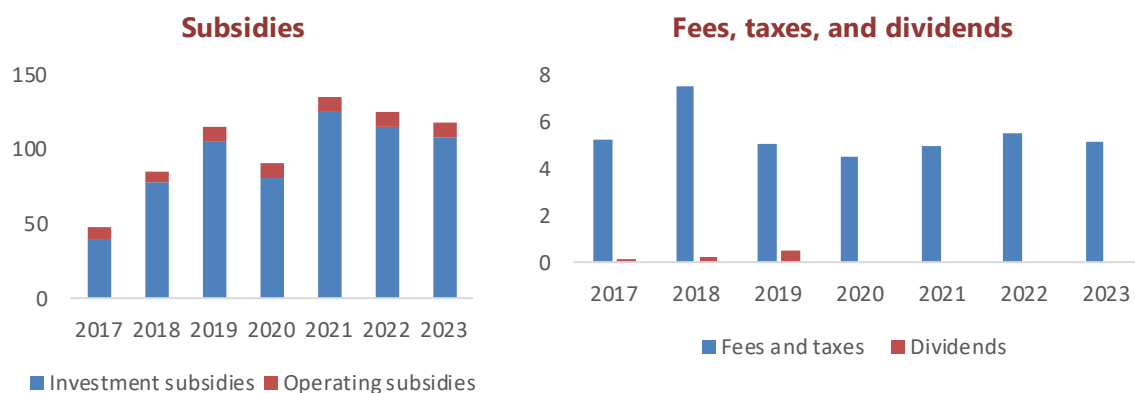
Sources: DPBEP, DGPED, mission.
The figures are forecasts beginning in 2020 (inclusively).

⁶⁶ For example SONEB or SBEE.

110. The scope of public corporations placed under the supervision of the DGPEP does not cover all companies in which the government holds stakes. For example, the government has holdings in the financial sector⁶⁷ that are not tracked in the same way as public corporations within the above-mentioned legal framework. According to the information provided to the mission, there are now more than 60 government investments (majority and minority), and the authorities are currently taking stock of these holdings. However, there is no consolidated monitoring system for all of the government’s holdings (public corporations and other corporations in which the government has holdings). This indicator is only evaluated for public corporations, and does not apply to all of the government’s holdings.

111. The main financial transfers between central government and public corporations are presented in the context of the DPBEP. Accordingly, subsidies, taxes, and dividends are reflected in the DPBEP (see Figure 3.4). In addition, the government of Benin uses onlending with loans from public corporations to finance projects. Information on these loans is published by the CAA in its quarterly debt statistics bulletin. These onlending arrangements, which are monitored by the CAA, amounted to CFAF 293 billion at the end of 2019, equivalent to almost 4.5 percent of GDP. One of the main risks associated with servicing these onlending arrangements involves cash flow in the public corporations, potentially creating the need for the establishment of escrow accounts to cover the debt service. It should be borne in mind that the central government services the onlending arrangements with the lender and then collects the funds from the government corporations. It therefore undertakes the risk of default or delays on the part of the public corporations.

Figure 3.4. Benin: Developments in Certain Financial Flows Involving Public Corporations
(In billions of CFAF)



Sources: DPBEP and calculations by the mission.
The figures are forecasts beginning in 2020 (inclusively).

⁶⁷ For example, a commercial bank, the BIIC, or an insurance company, Africaine des assurances du Bénin.

112. The multiple financial linkages between the government and public corporations create significant risks in terms of the government's deficit and debt. There are many risks and transmission mechanisms (debt, recapitalization, and restructuring, guarantees and onlending arrangements, the level of subsidies, and the impact on government revenue⁶⁸) and the analyses and available information are still limited. Accordingly, the scale of these risks is difficult to grasp, as some companies may experience financial difficulties, debt situations may deteriorate, and cross debt may accumulate. More specifically, when they experience cash flow difficulties, public sector operators, such as SONOEB or SBEE, may accumulate arrears with the public sector, including with the financial sector⁶⁹ and with the rest of the public sector (arrears in taxes, social security contributions, and payments to other supplies).⁷⁰ The government may also choose to transfer assets or to convert its claims to help public corporations in difficulty.

113. The authorities are considering the introduction of measures that will ultimately enable risks from public corporations to be taken into account in the overall fiscal risk analysis framework. Aware of the risks that public corporations may pose to government finance, the authorities have established an institutional framework for monitoring and management (for example, strengthening the role of the DGPEP and CAA in collecting and analyzing unsecured bank debt of public corporations) and plan to introduce measures to consolidate the central government tax accounts with the financial statements of public corporations.

114. In 2018, the government of Benin adopted an investment policy, yet to be published, and has developed performance contracts to establish targets for public corporations and improve their performance. These contracts, monitored by the DGPEP, define, for a multiyear period, the reciprocal commitments of the public enterprise and the government, as well as the technical and financial objectives to be achieved. They also specify the mechanisms for monitoring their implementation. At December 2019, eight contracts had been executed.⁷¹ The government participation strategy is defined in the strategy involving government shareholding of December 2018. This strategy, that is pending validation, has not been published. Aside from the presentation of the legal and regulatory framework, as well as the main issues in connection with the government portfolio, it includes the government's main strategic thrusts, focusing on improved management issues, returns on assets, rehabilitation of

⁶⁸ For example, as a result of the nonpayment of dividends or the noncompletion of planned privatization operations.

⁶⁹ This poses a risk to financial stability, in light of the importance of some public corporations.

⁷⁰ During the mission, it was mentioned that public entities (including public corporations) have liabilities of approximately CFAF 77 billion with the CNSS.

⁷¹ With the National Timber Office (ONAB), National Council of Shipping Agents (CNCB), Maritime Navigation Company of Benin (COBENAM), Independent Market Management Company (SOGEMA), National Lottery of Benin (LNB), Port Handling Company of Benin (SOBEMAP), National Center for Public Works Testing and Research (CNERTP), and Postal Service of Benin (LPB). The mission was unable to access detailed information on these contracts.

financial relations between public corporations and the government, and enhanced monitoring and supervision. The mechanisms for the evaluation and monitoring of the strategy (institutional organization and key indicators) are also defined.

115. The DGPED produces an annual paper on the developments and performance of the portfolio. This paper presents the financial performance of the portfolio,⁷² major developments in the portfolio, and the main issues in terms of governance and portfolio monitoring or oversight. In connection with international best practices, the performance analysis might be supported with the study of different ratios to measure financial performance, liquidity risks, or solvency risks of public corporations.⁷³ This paper might also be gradually extended to cover all performance and risk issues affecting the government's portfolio.⁷⁴

116. Quasi-budgetary activities of public corporations are not communicated in a specific report. Some public corporations, including SBEE and SONEB, engage in quasi-budgetary activities (such as public infrastructure financing) or are subject to mandatory social tariffs or regulated prices. Reporting on the cost of these activities is fragmented (for example, it can be found in the documents describing the activities of public corporations) and cannot be used to prepare accurate estimates, entailing the risk that the activities will be compensated below costs (on a forecast or execution basis).

117. Fiscal risks linked to the public corporations portfolio are now difficult to estimate in Benin, in the absence of a consolidated monitoring document. Accordingly, the available information would appear to be insufficient, including the fiscal information communicated to Parliament for the purpose of the annual Budget Law approval, and there are multiple forms of financing: transfers, guarantees, on-lending, reciprocal claims, etc. The lack of information is also attributable to very late reporting of the public corporations accounts.

Conclusions and Recommendations

118. Benin has initiated a virtuous dynamic in the analysis of fiscal risks and the publication of fiscal and financial data. For the past few years, the authorities have made substantial efforts to analyze the main fiscal risks in connection with the annual budget preparation exercise. These efforts are reflected in the publication of a fiscal risk analysis

⁷² Covering the area for which the information is available and in summary form (turnover, outlays, and net results).

⁷³ For example: operating profit or loss margin, net profit or loss margin, return on assets, return on capital, liquidity ratio, and leverage ratio.

⁷⁴ See, for example, reports published by Morocco (https://www.finances.gov.ma/Publication/db/2021/04-%20Rapport%20%C3%A9tablissements%20et%20entreprises%20publics_Fr.pdf), Norway (https://www.regjeringen.no/globalassets/departementene/nfd/bilder/eierskap/engelsk-side/the-state-ownership-report_web.pdf), or Sweden (<https://www.government.se/4a841c/contentassets/30d932bb500642b6a2dfcf40e7457071/annual-report-for-state-owned-enterprises-2019-complete.pdf>), that may include relevant areas to be covered.

document appended to the draft budget law (PLF 2021). In addition, extensive documentation is available and accessible online at the government or public websites.

119. These efforts should now be consolidated to enable Benin to reach the level of best practices:

- First, the current analysis will have to be supplemented, as certain fiscal risks do not appear to be or are not being properly monitored, such as risks associated with government holdings in public corporations. At the level of the analysis *per se*, improvements will be required to generalize the quantification of the identified risks as well as their fiscal and financial impacts;
- Efforts should be made to continue publishing certain documents, as required by the Fiscal Transparency Code. Actuarial projections of social security funds or stress tests of financial sector institutions are examples of documents that exist but that are not public, despite their importance in risk analysis;
- In terms of administrative organization, improvements could also be made to facilitate the monitoring and analysis of certain risks (such as the new Directorate General of the Financial Sector). Legal framework development is also recommended (for example, on PPPs and subnational governments);
- Finally, risk analysis function should be more effectively coordinated with financial and budget instruments designed to mitigate them (such as budget reserves, disaster funds, etc.).

120. Three key recommendations are proposed in connection with this pillar of the Code:

- **Recommendation 3.1. The publication of the budget and financial data should be supplemented to enhance transparency and fiscal risk analysis:**
 - The process of publishing fiscal and financial information, in accordance with the objectives of the Fiscal Transparency Code, particularly with the following components, should be continued:
 - Reports on actuarial studies and analyses of the long-term financial situation of existing social security funds, health insurance funds, and pension schemes (CNSS and FNRB) (**within reach**);
 - Current financial information from the municipalities and recent versions of the publication "*The Municipalities of Benin in Figures*" (**within reach**);
 - The 2018 government investment strategy (**within reach**);
 - Comprehensive analyses of the performance of public corporations within the framework of the annual paper published by DGPEP (**within reach**);
 - The government's rights, obligations, and other commitments, including conditional commitments, in connection with PPPs, and the related revenue and payments expected during the term of the contracts;

- Information on mining resources as the results of prospecting activities become available;
- Information relating to all of the government's holdings (including in financial public corporations).
- The budget and accounting documents should be supplemented in accordance with the organic law and the PCE (such as the DPPD on Guarantee and Endorsement Account, DPPD on Special Appropriation Account for disaster management and prevention, endowment for non-reimbursement or execution of guarantees, statement on off-balance sheet commitments (EHB), and, if applicable, the justification for the allocated amounts consistently with the information provided in the fiscal risks statement.
- The use of these appropriations should be reported in the quarterly budget execution report and monitored in the annual cash flow plan (**within reach**).
- **Recommendation 3.2. The fiscal risk analysis should be expanded to move towards best practices**
 - The internal risk mapping should be updated annually and systematically coordinated with the chapter on uncertainty in the DPBEP and fiscal risk statement (DRB);
 - The quantitative analysis should be generalized in the fiscal risk statement (DRB) and the impacts of economic shocks on revenue, expenditure, wage bill, and debt should be estimated, including:
 - Development of a systematic assessment of the scale of fiscal risks;
 - Introduction of estimation of the probability that the principal fiscal risks will occur;
 - Assessment of the criticality of each risk based on previous assessments.
 - Analyses for specific risks should be supplemented and incorporated into the fiscal risk statement:
 - *Environmental risks/natural disasters*: All priorities defined by the national contingency plan should be covered and the analysis should be refined to get a better understanding of the fiscal impact associated with the occurrence of these risks;
 - *Risks in connection with the pension and social security systems*: Actuarial studies of all social security, pension, and health insurance funds should be conducted regularly (at least once every five years);
 - *Guarantees*: A methodology should be established to assess and classify the level of risk associated with each guarantee, and this information should be reported in the budget;
 - *Financial sector*: The analysis of the government's explicit support to the financial sector should be expanded to reflect all of the government's holdings in the financial sector and mechanisms to guarantee savers' deposits (for the banking sector as well as for the decentralized financial sector);

- *Public corporations*: The analysis of the performance of public corporations should be strengthened (for example, using the SOE Health Check Tool developed by the IMF).
- **Recommendation 3.3. Strengthen the institutional and legal framework**
 - Consolidated monitoring of the government’s financial assets should be ensured (including treasury cash, in connection with the Treasury Single Account, and the government’s holdings) and a government asset strategy should be developed, in connection with the deployment of accrual accounting;
 - A limit should be introduced into the law on the government’s cumulative obligations in connection with public-private partnerships (for example, a limit on future annual payments under the PPP portfolio) as well as a limit on local government recourse to borrowing.
 - Development of a consolidated view of the government portfolio related to public corporations should be continued, and the supervision of the government’s financial holdings, including the financial activities of the Postal Service of Benin, should be assured;
 - A framework document should be developed to specify the rules and conditions for the use of global appropriations set aside for addressing contingencies.

Table 3.9 summarizes the assessment in light of the principles of Pillar III of the Code.

Table 3.9. Benin: Summary Assessment – Pillar III (Fiscal Risk Analysis and Management)

Principle		Assessment	Importance	Rec.
3.1. Communication and analysis	3.1.1. Macroeconomic risks	Good. The budget documentation contains a DRB in which certain risks are described and quantified. The DPBEP also contains three scenarios (optimistic, pessimistic, and central) that are presented in detail.	Medium. There is no current mapping of macroeconomic risks, and the impact analyses of shocks focus essentially on growth and revenue, which does not make it possible to assess the overall fiscal impact.	3.2
	3.1.2. Specific fiscal risks	Basic. The DRB proposes a qualitative analysis of the main risks. Quantitative analyses focus primarily on macroeconomic risks without probability analysis.	High. The inclusion of fiscal risk figures in the documentation is essential to estimate its importance and to ensure proper management.	3.1, 3.2
	3.1.3. Long-term fiscal sustainability analysis	Not met. Studies on the fiscal sustainability of the central government are incomplete and long-term analyses of social security and health insurance funds are not published.	High. The FNRB deficit was 0.7 percent in 2017. Actuarial studies should be published and carried out more regularly.	3.1, 3.2
3.2. Management	3.2.1. Budgetary contingencies	Basic. Different reserves are provided for in the budget to address unforeseen circumstances, but the conditions for their use are not specified.	Medium. The level of reserves represents an average of more than 10 percent of the appropriations established. They must be coordinated more effectively with the various risks and shocks identified.	3.1
	3.2.2. Asset and liability management	Basic. Borrowing is authorized by law and public debt risks are analyzed. There are no risk analyses on financial assets.	Low. Projects being developed in connection with the accrual accounting system must allow a more effective control of the issues in connection with the assets.	3.3
	3.2.3. Guarantees	Good. All guarantees are monitored, tracked, and published. This information must now be supplemented with an assessment of the risk of occurrence.	Low. Only one guarantee is now in progress and there are no plans to use this mechanism in the medium term.	
	3.2.4. Public-private partnerships	Not met. The current legal and regulatory framework does not provide for the publication of rights, obligations, and other commitments in connection with PPP projects. There are no publications concerning projects under consideration.	High. The ambitions of the PAG in terms of mobilizing PPPs (61 percent of projects) require a robust framework for the relevant fiscal risks.	3.3
	3.2.5. Financial sector exposure	Not met. There are no analyses of the government's explicit support for the financial sector. Financial sector stability analyses and stress tests are not published.	High. Despite regional deposit guarantee mechanisms, the stakes are still substantial (e.g., BIIC balance sheet: 4.1 percent of GDP) and coverage for liquidations is uncertain.	3.2, 3.3
	3.2.6. Natural resources	N/A. No significant natural resources are currently being exploited in Benin, and the potential resources are not being estimated.	Low. Extraction resources contribute just under 0.4 percent of GDP.	
	3.2.7. Environmental risks	Basic. Several types of risks are identified and published, but their financial impact is inadequately understood. The strategy is very dispersed and not straightforward.	Medium. Environmental risks have a limited fiscal impact but may increase in the medium term.	3.1
3.3. Coordination	3.3.1. Subnational governments	Basic. The financial information of CTDs is published. Their debt, although limited in practice, is not subject to any rules or limits.	Low. The finances of decentralized local authorities (CTD) accounted for an average of less than 1 percent of GDP during the past four years.	3.1, 3.3
	3.3.2. Public corporations	Basic. The government investment strategy is not published and information on the performance of public corporations is still not extensive.	High. The weight of government corporations in the Beninese economy is substantial, with their assets accounting for 11.6 percent of GDP.	3.1, 3.2, 3.3

Annex I. Action Plan 2021-2024

Recommendation/ Action	2021	2022	2023	2024	Responsible agency
Pillar I. Financial reporting					
Recommendation 1.1: The process of improving coverage, production, and dissemination of government finance statistics should be accelerated.					
Action 1.1.1. The coverage of the current TOFE should be expanded to all units of general government for information available at the MEF.	A TOFE that includes revenue and expenditure aggregates that are already available from EPAs, EPICs, CNSS, and subnational governments should be prepared.	The information should be expanded to provide the breakdown of the major aggregates when the data become available.	A consolidated TOFE should be produced for all units of general government.		CSPEF
Action 1.1.2. Production of the TOFE should be improved by reducing the statistical gap and producing explanatory notes covering the methodology and source data used.	A methodological note explaining the preparation of the data should be published.	The sources of discrepancies should be identified and reductions targeted; these improvements should be reflected in the pilot GFSM 2001/2014-based TOFE.			CSPEF
Action 1.1.3. Development and publication of at least an annual financial balance sheet for budgetary central government.	The financial balance sheet may be drawn up from different sources of information: debt statement, balance of the Treasury Single Account, government holdings, and the BGCE for budgetary central government.	This financial balance sheet should be expanded to include all of general government, and the authorities should aim for its public release.	With the introduction of accrual accounting, please use the new BCGE based on the new chart of accounts to steer the exercise of preparing a financial balance sheet.	(i) The exercise should be expanded to prepare a complete balance sheet for budgetary government. (ii) The scope of coverage should be expanded to prepare a consolidated public sector balance sheet.	DGTCP, DGPED, CSPEF, CAA
Action 1.1.4. The GFSM 2001/2014-based TOFE should be released.	Even if the activities are in the piloting phase and the quality of the information is not yet optimal, the aim is to inform the public that such information exists before the complete adoption of the GFSM 2001/2014-based TOFE.	Production of 2001/2014-based TOFE should be strengthened by producing, in addition to the financial balance sheet as provided by GFSM 2001/2014, the statement of government operations.	Publish the GFSM 2001/2014-based TOFE, and the production area should be expanded to generate all of the statements provided by the TOFE Directive.		CSPEF
Action 1.1.5. A note and bridge table between the two methodologies should be released.	In connection with the adoption to the GFSM 2001/2014-based TOFE, please prepare and disseminate a note explaining the methodological differences between the two versions of the TOFE. This approach will make it easier to understand the new presentation.	This note should continue to be supplemented as progress is made in the change, and any variations in the figures prepared should be explained. Please also publish comparative notes between the budget balance and the statistical balance.			DGB, DGTCP, CSPEF
Recommendation 1.2. Preparation and external auditing of the government accounts and the time frame for releasing their certification should be improved.					
Action 1.2.1. The periodicity and timeliness of budget execution reports should be improved: based on the information system, quarterly and monthly budget execution reports should be published with a lag of one month after the reference period.	The elements of the process of preparing these reports should be identified to reduce the release lag.	(i) The release of quarterly outturn reports within one month after the reference period should be targeted. (ii) Preparation of monthly data should begin.	The monthly reports should be released within 30 days after the reference period.		DGB
Action 1.2.2. The process of implementing the new Court of Auditors should be accelerated, particularly by establishing its bodies and procedures, developing the capacities of the judges in the area of certification, and correcting any problems observed in the implementation of these powers and responsibilities.	The code of procedures should be adopted and all bodies established.	(i) A plan should be adopted and implemented to strengthen capacities for the certification of the accounts; and (ii) the budget discipline procedure should be activated.	(i) A certification exercise should be conducted on an experimental basis; and (ii) the first decisions on the judgments of the authorizing officers should be issued.	First certification exercise	CC
Action 1.2.3. A process of reducing the delay for the publication of the audited annual government accounts to six months should be undertaken in the medium term, as suggested by best practices.	The website of the Court of Auditors should be reactivated and the audited financial statements should systematically be published as soon as they are available.	The mechanisms for reducing the delays should be discussed with the MEF, using the automated data production facilities offered by the new information system.	The delay should be reduced to seven months.	The six-month lag should be observed, as indicated by the Transparency Code.	CC, MEF

Pillar II. Fiscal forecasting and budgeting					
Recommendation 2.1. The process of strengthening the credibility of the multiyear and annual government financial and budget forecasts should be accelerated.					
Action 2.1.1. The forecast reconciliation exercise should be strengthened.	A qualitative analysis of the developments in successive real sector and fiscal forecasts should be presented in the DPBEP 2022-2024.	Methods should be developed to explain successive forecast discrepancies in respect of key factors, and implemented in DPBEP 2023-2025.	A report on implementation of DPBEP 2022-2024 should be prepared during the first half of the year.		DGAE
Action 2.1.2. The analysis of the key drivers and assumptions for forecasting macroeconomic aggregates should be developed.	An explanation of the assumptions used in the projections and the key drivers of the macroeconomic aggregates for the real sector and the TOFE should be incorporated into the DPBEP 2022-2024.	An explanation of the assumptions used in the projections and the drivers of the macroeconomic aggregates for all four accounts should be incorporated into the DPBEP 2024-2026.	An explanation of the assumptions used in the projections and the drivers of the macroeconomic aggregates for all four accounts should be incorporated into the DPBEP 2024-2026.	An explanation of the assumptions used in the projections and the drivers of the macroeconomic aggregates for all four accounts should be incorporated into the DPBEP 2025-2027.	DGAE
Action 2.1.3. The institutional framework and organization of the independent evaluation should be reviewed.	An assessment team should be established on the merger of IPAB and UNACEB, comprised of members of the Executive and Parliament.	The law should be adopted and the independent institution should be established.	The first independent evaluation should be produced on the government's forecasts.	The second independent evaluation should be produced on the forecasts, and, if possible, on the cost of the new policies.	National Action Plan (PAN), PR
Recommendation 2.2: The information and analysis of programming documents and budget reports should be enhanced.					
Action 2.2.1. The presentation of the information on EPAs should be improved.	Revenue of EPAs should be presented by funding source in the budget documents (2022 fiscal year).	Revenue of EPAs should be presented by funding source in the budget documents (2023 fiscal year).	Revenue of EPAs should be presented by funding source in the budget documents (2024 fiscal year).	Revenue of EPAs should be presented by funding source in the budget documents (2025 fiscal year).	DGB
Action 2.2.2. A general review of the budget programs should be conducted by a dedicated interministerial entity to improve their formulation, in terms of the description, objectives, and results and indicators.	The dedicated interministerial entity should be established and its role and responsibilities defined.	The first review should be conducted.	Annual review	Annual review	Ministry of Finance, Ministry of Public Service, units of government responsible for results-based management and the evaluation of public policies
Action 2.2.3. The efforts to inform the public and promote public participation in the budget process should be strengthened.	Financial literacy	Financial literacy			DGB
		The 2018 budget calendar, including all stages of public participation, should be implemented.	The 2018 budget calendar, including all stages of public participation, should be implemented.	Financial literacy	
Action 2.2.4. All criteria should be published for project appraisal and selection of investment projects, along with feasibility studies to make the process more transparent.		Publication of appraisal and selection criteria of investment projects	Publication of feasibility studies	Publication of feasibility studies	DGPSIP
		Publication of feasibility studies			

Pillar III. Analysis and management of fiscal risks					
Recommendation 3.1 : The publication of the budget and financial data should be supplemented to enhance transparency and risk analysis.					
<p>Action 3.1.1. The process of publishing fiscal and financial information, in accordance with the objectives of the Transparency Code, should be strengthened.</p>	<p>Reports of studies and analyses of the long-term financial situation of social security funds, health insurance funds, and pension schemes (CNSS and FNRB) should be published when available.</p>	<p>The government's obligations, and other commitments in connection with PPPs, and the revenue and payments expected during the term of the contracts, should be published. The FNRB study should be published as soon as it has been validated.</p>	<p>Anl study of the CNSS should be conducted regularly and published.</p>	<p>Information on mining resources should be published as the results of exploration become available.</p>	<p>DGAE, CNSS, DNRB, DGB, BAI, Ministry of Water and Mining</p>
	<p>Current financial information on the sunational governments should be published.</p>				<p>CONAFIN</p>
	<p>The analyses of the performance of public corporations, within the framework of the annual paper published by DGPED, should be published.</p>				<p>DGPED</p>
	<p>More detailed information should be published on the performance of public corporations (balance sheet, cash flow, performance and risk analysis ratios, and financial flows with the government.</p>				<p>DGPED</p>
		<p>Information on all of the government's (majority and minority) holdings, including in public financial corporations, should be published.</p>			<p>CAA DGPED</p>
<p>Action 3.1.2. The budget and accounting documentation should be supplemented in accordance with the Organic Budget Law and the PCE, primarily by providing the justification of the amounts of appropriations made according to the fiscal impact and the probability of the risks they are intended to cover, and, where applicable, the appropriations should be adjusted in connection with the DRB.</p>		<p>The DPPD for the guarantee and endorsement account, the DPPD for the "Disaster management and prevention" special appropriation account and the document on the allowance for non reimbursement or execution of guarantees should be prepared.</p>		<p>The annexed statement of off-balance sheet exposures should be prepared.</p>	<p>DGB, DGCPT</p>
<p>Action 3.1.3. Implementation of appropriations for contingencies should be reported.</p>		<p>The use of these appropriations should be reported in the RTEB.</p>			<p>DGB, DGCPT</p>
	<p>These appropriations should be monitored in the annual cash flow plan.</p>				

Pillar III. Analysis and management of fiscal risks					
Recommendation 3.2: The analysis of risks should be expanded to move towards best practices					
Action 3.2.1. The internal risk mapping should be updated annually and systematically linked to the chapter on uncertainty in the DPBEP and the budget risk analysis paper (DRB).	The risk map should be updated and it should be ensured that the DPBEP and DRB are in line with the key risks it has identified.	An analysis of macroeconomic risks for alternative scenarios should be included in the chapter on uncertainties in the DPBEP covering analysis of fiscal risks.			DGAE, DGB
Action 3.2.2. The quantitative analysis should be generalized in the risk analysis paper (DRB) and the impact of shocks on revenue, expenditure, wage bill, and debt should be estimated.	A systematic assessment of the level of fiscal risks should be developed.				DGAE, DGB, CAA
	The probability that the principal fiscal risks will occur should be estimated.				
	The criticality of each risk should be assessed, based on previous evaluations.				
Action 3.2.3. Risk analyses should be supplemented for specific risks and incorporated into the fiscal risk declaration.	All of the priorities defined by the national contingency plan should be covered, and the analysis should be refined to gain a better understanding of their fiscal impact.	Actuarial studies of all social security, pension, and health insurance funds should be conducted regularly (at least once every five years).			DGAE, DGB, Directorate General of the Financial Sector, CAA, DGPED, CNSS, FNRB
	The analyses should be developed for all explicit government support to the financial sector (such as government holdings in the financial sector, and mechanisms to guarantee deposits for savers.)	A methodology should be established to assess and classify the level of risk associated with each guarantee.	The relevant information on the risk level of each guarantee should be reported in the budget	The relevant information on the risk level of each guarantee should be reported in the budget	
	The analysis of the performance of public enterprises should be strengthened (for example, using the SOE Health Check Tool developed by the IMF).				
Recommendation 3.3. The institutional and legal framework should be strengthened.					
Action 3.3.1. Consolidated monitoring of the government's financial assets should be assured.			Monitoring of the government's financial assets should be coordinated with cash management, particularly with the Treasury Single Account, as well as with the monitoring of the government's holdings.		DGPED, DGCPT
			A government asset management strategy should be developed in connection with the deployment of accrual accounting.		
Action 3.3.2. Certain limits should be introduced into the law to provide a better framework for certain risks.	A limit should be introduced on cumulative government obligations relating to PPPs (such as a limit on future annual payments in connection with the PPP portfolio) in the 2021 PLF.	A limit should be introduced on subnational government borrowing.			DGB, BAI, CONAFIL
Action 3.3.3. Development of a consolidated overview of the government portfolio should be continued, and the supervision of the government's financial holdings should be assured.	All government holdings in the financial sector should be identified and their supervision strengthened, including the financial activities of the Postal Service of Benin.	Comprehensive, consolidated information on the portfolio of the government's holdings should be incorporated into the budget documentation, and an analysis of the relevant fiscal risks should be presented in the DRB.			DGAE, Directorate General of the Financial Sector, DGPED
		A specific analysis of risks in connection with the government's holdings in the financial sector (including the financial activities of the Postal Service of Benin) should be included in the report on the fiscal risk analysis.			
Action 3.3.4. The rules and conditions for the use of global appropriations set aside to address contingencies should be specified.		A framework document should be prepared.			Directorate General of Budget (DGB)

Annex II. Sources of Data for the Estimation of the Public Sector Financial Balance Sheet in Benin

This annex contains the data sources that have been used to draw up the financial balance sheet of Benin's public sector and that could be used to expand the coverage of the TOFE.

These detailed data sources for each subsector may serve as a basis for a preliminary exercise in the preparation of the public sector financial balance sheet. However, the suggestion proposed in this Annex should not be considered permanent and should not constitute a replacement for improved accounting data and the move to accrual accounting.

1. Budgetary central government (BCG):
 - a. Revenue and expenditure: Data from the TOFE, as it is currently compiled
 - b. Financial assets: (i) deposits, the Statistical Bulletin published by the BCEAO; (ii) holdings, the DGPD report on the government's holdings was used, although these data require updating to determine their market value each year; (iii) data shared by the CAA on onlending to public industrial and commercial institutions.
 - c. Liabilities: (i) for debt, the debt management report prepared by the CAA; and (ii) other liabilities, based on the government trial balance (BCGE).
2. Extrabudgetary central government:
 - a. Revenue and expenditure: The Analytical Note for Public administrative institutions, which provides annual information on total revenue and expenditure, as well as the breakdown of revenue into own resources and capital and current transfers, and the multiyear economic and budget programming paper (DPBEP).
 - b. Financial assets: Deposits, the BCEAO Statistical Bulletin was used.
 - c. Liabilities: The stock of liabilities was obtained from the BGCE.
3. Social Security Funds: The mission was unable to obtain the financial statements of the National Social Security Fund (CNSS) and used other sources of information.
 - a. Revenue and expenditure: DPBEP.
 - b. Pension liabilities: The actuarial report, a 2016 report was used for the estimates.
 - c. Assets: Estimates were based on previous financial statements (2015). However, this information can be generated easily using the current CNSS financial statements.
4. Subnational governments:
 - a. Revenue and expenditure: Analytical note from the subregional governments and the DPBEP.
 - b. Financial assets: In the absence of other sources, the mission estimated financial assets as the difference between subnational government revenue and expenditure between 2013 and 2019.

5. Nonfinancial public corporations: Different data sources were used to estimate the data for nonfinancial public corporations.
 - a. Revenue and expenditure: DPBEP.
 - b. Assets: Financial statements from eight companies that were shared with the mission were used. However, as the eight corporations for which there were financial statements did not cover a large part of the total turnover of public industrial and commercial institutions, an estimate was made for the data for *Société Beninoise d'Énergie Électrique* from the 2015 financial statements.
 - c. Liabilities: Note on public enterprise debt and partly from onlending arrangements with EPICs shared with the mission by the CAA.

6. National Branch of the BCEAO:
 - a. Revenue and expenditure: For revenue and outlays, data from the BCEAO financial statements were used. As the data are not disaggregated by country, information on assets from the Bulletin were used, and the appropriate proportion was determined with the share of Benin's assets to total assets. This proportion was then applied to total revenue and expenditure.
 - b. Assets and liabilities: BCEAO financial statements as presented in the BCEAO Statistical Bulletin.

Annex III. Issues Related to Independent Evaluation

As a best practice, an independent entity should evaluate the credibility of the government's forecasts. An external evaluation provides a more targeted assessment of budget forecasts than a simple comparison with alternative forecasts, as it can examine the assumptions, justification, cost indicators, and the policy inputs used to prepare the forecasts. This assessment should preferably consider (i) whether the forecasting assumptions, such as GDP growth, exchange and interest rates, and commodity prices, are realistic; (ii) how these assumptions translate into economic and fiscal projections; (iii) whether they are consistent with historical relations, trends, and models; and (iv) whether budget forecasts accurately reflect the cost of the existing and announced policies.

As an advanced practice, the independent evaluation goes beyond an *ex-ante* assessment of the forecasts to conduct an *ex-post* evaluation of the government's fiscal performance. This dimension adds more credibility and transparency to the government's performance reports. Such an evaluation focuses on the government's actual fiscal performance relative to its declared fiscal objectives, and, where appropriate, on compliance with fiscal rules.

Independence can be assured in a number of ways. For example, through measures such as the selection of staff based on merit and clear, impartial appointment procedures, lengthy, nonrenewable terms of office, and the protection of the financing of the entity involved against the discretion of the executive. The OECD Principles for Independent Fiscal Institutions provide additional guidance (OECD, 2014b).

Independent evaluation may not be fully assured just by the independence of the entity itself. Although legal and institutional measures for independence of the entity such as those mentioned above may be useful, the true measure of independence often derives from the reputation of the entity, that ultimately depends on its history.

Source: IMF publications on this topic.

Annex IV. Independent Evaluation of Economic and Fiscal Forecasting in Kenya

Established in 2007 following a resolution of Parliament, the legal status of Kenya's Parliamentary Budget Office was strengthened by two laws:

- The Tax Management Law of 2009 (FMA), that established the Office as an Office of the Parliamentary Services Commission, and then as a Directorate in 2010.
- The Law on Public Financial Management, Articles 9 and 10 of which contain other provisions on the prerogatives of the Office.

The Office should be composed of persons appointed by merit on the basis of their experience in the areas of finance, economics, and public policy.

The role of the Parliamentary Budget Office in Kenya is to:

- Provide professional services in budget, financial, and economic information to parliamentary commissions;
- Prepare reports on budget projections and economic forecasts and make proposals to the parliamentary commissions responsible for budget matters;
- Prepare analyses on specific issues, including financial risks posed by government policies and activities to provide guidance to Parliament;
- Examine budget proposals and economic trends and make recommendations to the parliamentary commission responsible for such proposals and trends;
- Establish and foster relations with the national treasury, county treasuries, and other national and international organizations interested in fiscal and socioeconomic issues that it considers appropriate for the effective, efficient performance of its duties;
- Subject to Article 35 of the Constitution, ensure that all reports and other documents produced by the Parliamentary Budget Directorate are prepared, published, and disseminated no later than 14 days after their production;
- Report to the relevant commissions of Parliament on any draft law submitted to Parliament having an economic and financial impact, referring to the principles of fiscal responsibility and the financial objectives outlined in the corresponding Fiscal Policy Declaration; and
- Propose, when appropriate, an alternative budget framework for any fiscal year.

In carrying out its functions as indicated above, the Parliamentary Budget Office of Kenya must observe the principle of public participation in budget matters.

Annex V. Analysis of Forecasting Discrepancies

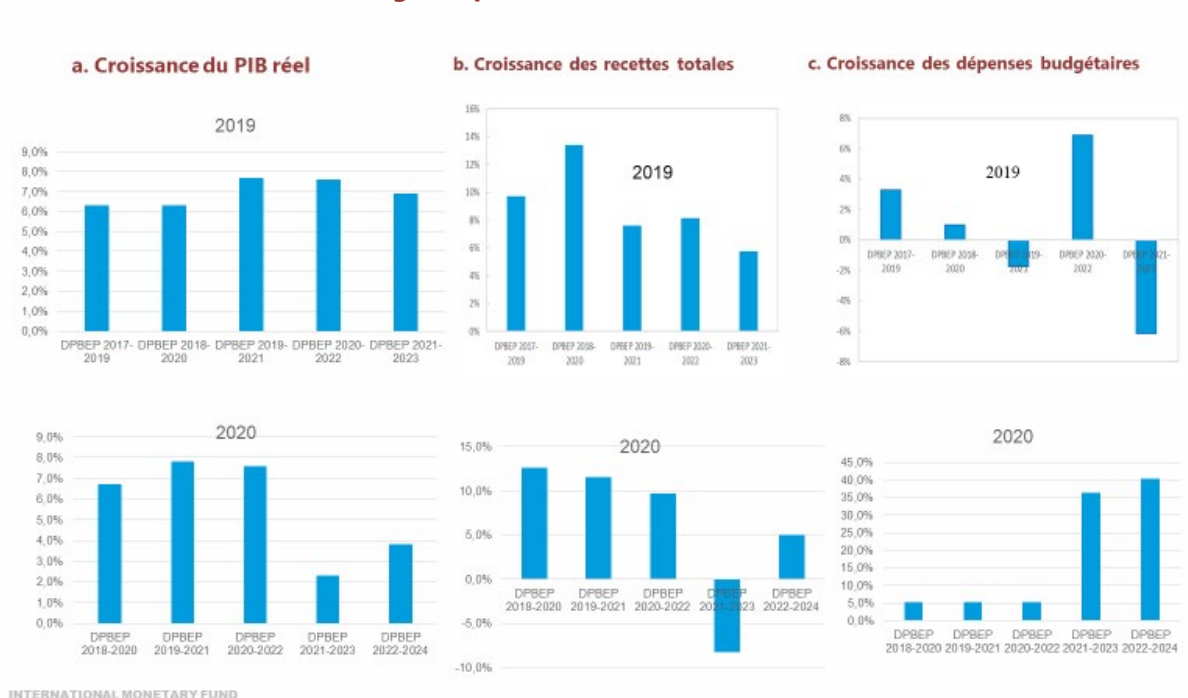
The credibility of a government's budget forecasts depends on the consistency between successive years of forecasts. Forecasts are inherently uncertain, and these uncertainties can occur in many forms. For example, there may be uncertainty as to the structural evolution of the economy and unexpected economic events or shocks. Uncertainty may also exist in connection with policy decisions and future policy measures. In general, even if every effort must be made to prepare accurate forecasts, it is unlikely that an economic and fiscal variable will evolve precisely according to a forecast made at a given point. The presence of uncertainty means that forecasting gaps between successive years are not rare. Accountability requires governments to provide a clear explanation of the impact of macroeconomic developments and discretionary government actions on revenue and expenditure.

Changes in macroeconomic and fiscal forecasts are attributable to several factors. These factors include (i) changes in accounting treatment or classification; (ii) changes deriving from modification of the baseline; (iii) changes in demographic assumptions or parameters; and (iv) the impact of new policies adopted during the year.

Efforts to reconcile successive forecasts make it possible to gain a better understanding of the changes that have occurred since the last macroeconomic projections. A structured reconciliation of forecasts can play an important role in shaping external expectations in the area of fiscal strategy by reducing speculation on the reasons for the discrepancies between successive periods. It also helps to improve forecasting methods and to draw lessons on the practice of establishing forecasting assumptions.

Conducting such a reconciliation exercise implies that the results of the forecasting exercises must be effectively archived. In the context of the fiscal transparency evaluation, reconciliations of the forecasts must focus explicitly on revenue, expenditure, and financing. The budget documentation and any subsequent updates must explain substantial changes made to the previous fiscal forecasts, by explicitly comparing the fiscal impact of the new policy measures with the reference measures.

Figure A5.1. Benin: Reconciliation of Forecasts of Real GDP Growth, Total Revenue, and Budget Expenditure for 2019 and 2020



a. Real GDP growth b. Total revenue growth c. Budget expenditure growth

The basic practice is to highlight discrepancies and to present a qualitative analysis of these forecast discrepancies. Accordingly, in the short term, this approach will involve:

- Presenting a table of discrepancies between macroeconomic forecasts and execution, accompanied by explanations providing details, for example, of the contributions of the different supply and demand sectors to these discrepancies; and a table of discrepancies between budget forecasts and execution, accompanied by qualitative explanations of these discrepancies;
- Producing tables that compare the macroeconomic forecasts with those from the previous fiscal year, providing details of the contributions from the different sectors of supply and demand to these revisions; and applying the same procedure for the budget forecasts according to the standard presentation below (example of the DPBEP), with at least a qualitative explanation of the discrepancies. More specifically, in the case of the PLF for year N+1, the revised forecasts for year N should be compared with those of the LFI for year N.

Total revenue/ expenditure	Year N-1	Year N	Year N+1	Year N+2	Year N+3
DPBEP N - N+2	100	105	112	121	
DPBEP N +1– N+3	103 (exec.)	105	114	119	127

Benin might use the following process to achieve the advanced level of practice in the medium term:

- Present a quantitative analysis of the reasons for the discrepancies between the budget forecasts and execution;
- Present a quantitative analysis of the reasons for the revisions of budget forecasts from one fiscal year to another, for example, in the following standard form (example of the DPBEP).

Total revenue/ expenditure	Year N-1	Year N	Year N+1	Year N+2	Year N+3
DPBEP N - N+2	100	105	112	121	
Total revisions	3	0	+2	-2	
- Macro factors	-4	+5	0	+7	
- New measures	- 0	+3	+2	-5	
- Other factors	- 1	+2	0	-4	
DPBEP N +1– N+3	103 (exec.)	105	114	119	127

Against this backdrop and in the context of the forecasts during a period of three years, the analyses could make it possible to highlight, for a given year N, at least five observations deriving from five budget laws (N-2 to N+2). When several projection exercises are conducted during the same year (for example, for budget orientation discussions, or

supplementary budget laws), the number of observations may increase commensurately. The above example does not reflect amending budget laws or forecasts for budget orientation discussions.

Annex VI. Long-Term Sustainability Analysis

Social and economic trends and new policy commitments made by the government can have significant long-term fiscal effects. Increased transparency in this area can provide a greater understanding of the future costs of current policy decisions, to manage long-term risks, and to promote sound macroeconomic and budget policies.

Long-term projections can be particularly useful in the following areas:

- **Public debt.** To gain an understanding of how the dynamics of public debt are likely to change in the future to help identify unsustainable fiscal policies.
- **Demography and social policy.** For countries with high levels of demographic growth and young populations, the challenges of meeting social demand for infrastructure and employment can create pressures on long-term public expenditure that must be brought under control.
- **Natural resources.** Countries that depend on natural resources should project the impact of the depletion of the resources and the loss of the relevant revenue.
- **Economic growth.** While some productivity reforms may entail small fiscal benefits in the short term, they have substantial potential in the long term.
- **Environmental considerations.** The costs of adapting to and mitigating climate change can be substantial and exert pressure on public finance.

To manage these long-term challenges, governments should at least prepare projections of the budget balance and government debt obligations for a 10-year period. These projections may be in the form of a relatively simple Debt Sustainability Analysis. By incorporating a sensitivity analysis, it can also provide information on trends in public debt under less favorable conditions. When a country has extrabudgetary funds, projections of expenditure, revenue, and the balances of these funds must be prepared for at least the next 10 years, or more, to identify any financing deficits that may become a claim on the government budget. Actuarial projections should at least use macroeconomic assumptions consistent with the debt sustainability analysis and use demographic projections to identify pressures on spending.

Source: IMF, from the Fiscal Transparency Handbook, 2018.