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THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR

In the context of the Third Review under the Extended Fund Facility and the Extended Credit Facility Arrangements and Request for an Arrangement under the Resilience And Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 14, 2023, following discussions that ended on October 26, 2023, with the officials of Benin on economic developments and policies underpinning the Fund-supported program under the Extended Fund Facility and the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 30, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- The **World Bank Assessment Letter for the Resilience and Sustainability Facility.**
- A **Statement by the Executive Director** for Benin.

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PRESS RELEASE

PR23/452

IMF Executive Board Approves US$200 million under the Resilience and Sustainability Facility for Benin and Completes Third Review of Extended Fund Facility and Extended Credit Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved today a new two-year arrangement under the Resilience and Sustainability Facility (RSF) in an amount equivalent to US$200 million. The Board also completed the Third Review under the existing EFF/ECF, giving Benin immediate access to an additional US$136 million.
- Robust tax collection is supporting fiscal consolidation, complementing stepped-up budget support from Benin's development partners and frontloaded Fund disbursements under the EFF/ECF.
- The RSF will support the authorities' goal to mainstream climate considerations in policymaking and complement the EFF/ECF in supporting overall socio-economic resilience in Benin.

Washington, DC - December 14, 2023: The Executive Board of the International Monetary Fund approved today a two-year arrangement under the Resilience and Sustainability Facility (RSF), in the amount of SDR 148.56 million (about $US200 million, 120 percent of quota), with disbursements to start when the First Review of the arrangement is completed. The arrangement will support the authorities' agenda to build resilience to climate change by mainstreaming climate considerations in policymaking, mitigating transition risks through a comprehensive fuel subsidy reform and catalyzing other sources of climate financing.

The Board also completed the Third Review under the 42-month blended EFF/ECF arrangement. The EFF/ECF was approved on July 8, 2022 (see PR 22/252) to help Benin address pressing financing needs, support the country's National Development Plan centered on achieving the Sustainable Development Goals (SDGs), and catalyze donor support. This completion of the review allows for the immediate disbursement of SDR 101.58 million (about US$136 million) toward budget support, bringing total disbursement under the program to SDR 369 million (about US$494 million).

Program performance remains strong, with all end-June 2023 quantitative targets met and structural benchmarks implemented.

Following the Executive Board discussion, Mr. Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"The authorities' steadfast reform implementation is helping navigate headwinds from the Niger border closure, amidst regional sanctions on that country, and the phasing-out of fuel subsidies in Nigeria. Remaining vigilant vis-à-vis the financial and socio-economic fallout from these shocks will be important for preserving macroeconomic stability.

“Robust tax collection is supporting fiscal consolidation toward the authorities’ strategy of converging to the West-African Economic and Monetary Union-wide fiscal deficit norm of 3 percent of GDP by 2025, in line with the program’s debt sustainability objectives. The recently adopted Medium-Term Revenue Strategy (MTRS)—aimed at improving the efficiency of the tax system and expanding the tax base—should sustain ongoing revenue collection efforts and help meet Benin’s large development needs over time.

“Contingency planning is paramount, considering heightened uncertainty. The authorities should maintain flexibility in budget execution, including a phased approach to their public investment.

“Accelerating the operationalization of the social registry will facilitate targeting as social programs are being scaled up, and help compensate vulnerable households in the fiscal adjustment process.

“Sustaining the ongoing reform drive to enhance the rule of law and the anticorruption framework will solidify the institutional foundations of private sector led growth that benefits all Beninese. Remaining vigilant vis-à-vis financial sector risks and promoting financial inclusion will support sustainable growth.

“Steadfast implementation of the authorities’ climate change agenda under the new Resilience and Sustainability Facility (RSF) will complement the EFF/ECF in supporting overall socio-economic resilience. The identified RSF reform measures build on the authorities’ national adaptation plan and existing diagnostics, including the IMF’s Climate Public Investment Assessment (C-PIMA), the World Bank’s Country Climate and Development Report (CCDR), and leverage the Global Center on Adaptation’s expertise. They aim at addressing key structural challenges that expose Benin to climate shocks and should help mitigate balance of payment risks and catalyze other sources of climate financing.”

INTERNATIONAL MONETARY FUND

BENIN

November 30, 2023

THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Backdrop. The IMF Executive Board approved in July 2022, 42-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements (391 percent of quota; about US$650 million) to help Benin meet pressing financing needs and support the country's National Development Plan centered on achieving the Sustainable Development Goals (SDGs). Program implementation remains strong, with additional (concessional) budget support from donors and new SDG financing complementing front-loaded Fund support beyond expectations. After strong momentum over the last several quarters, the Beninese economy faces headwinds from Niger border closure amidst regional sanctions following a coup in that country and post-electoral policy shifts in Nigeria, compounding preexisting challenges, including climate-related vulnerabilities and regional security risks. The authorities remain committed to reform notwithstanding those challenges. They have requested Fund support under the Resilience and Sustainability Facility (RSF) to support their ambitious climate agenda, thereby complementing the EFF/ECF in improving socio-economic resilience.

Policy discussions. Policy discussions under the Third EFF/ECF Review focused on i) the socio-economic and financial implications of Niger border closure and post-electoral policy shifts in Nigeria; ii) entrenching revenue-based fiscal consolidation underway, including new tax measures under the 2024 budget, while protecting the vulnerable; iii) next steps in the governance and AML/CFT agenda; and iv) contingency planning should the Niger border closure be prolonged or other unforeseen events materialize.

Program performance. Performance under the program remains strong. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-March and end-June 2023 were met. The structural reform agenda is advancing—the authorities developed a Medium-Term Revenue Strategy (MTRS), operationalized the commercial court of appeal, and prepared and annexed to the 2024 budget law a statement containing a quantitative fiscal risk analysis.

RSF design. The authorities request a 24-month arrangement under the Resilience and Sustainability Facility with access of 120 percent of quota to support Benin's ambitious climate agenda. Reform measures (RMs) under the RSF are centered on four main pillars: i) mainstreaming climate considerations in policymaking; ii) enhancing adaptation to climate change, including resilience building at the community level and climate-proof social safety nets; iii) mitigating transition risks through a comprehensive fuel subsidy reform; and iv) mobilizing private climate finance via the development of a climate financial information architecture, building on Benin's existing SDG bond framework. The RSF will support adaptation to climate change and enable mitigation efforts, thereby alleviating long-term BOP stability risks linked to the loss of commodity exports from extreme weather events.

Risks to the program. Risks to the program are elevated but remain manageable. They include higher need for security spending than expected, a prolonged socio-economic and financial impact of Niger border closure, and social discontent as the disruption in the illicit traffic of fuel—due to higher prices of smuggled fuel from Nigeria—caused loss of income (Box 3). The authorities' continued commitment to fiscal responsibility and renewed focus on social issues are important mitigating factors.

Approved By
Annalisa Fedelino (AFR) and Geremia Palomba (SPR)

Discussions were held in Cotonou during October 17–26, 2023. The mission comprised Mr. Lonkeng (head), Mr. Zouhar (Resident Representative), Ms. Daly, and Mr. Bennouna (all AFR), Ms. Bloch (FAD) and Mr. Wendling (FAD-climate), Ms. Gardes-Landolfini (MCM-climate) and Mr. Houessou (local economist). The mission was supported from headquarters by Mr. Specht and Ms. Eckling and from the local office by Ms. Nononsi. Mses. Namethe, Thomas, and Mr. Rafolisy (LEG), Mr. Stadler (AFR-climate), and Ms. van Thadden-Kostopoulos (FAD-climate) joined selected meetings remotely. The mission was also joined in Cotonou by Mr. Verhagen from the Global Center on Adaptation (GCA). The mission met with Senior Minister of Economy and Finance Wadagni, Senior Minister of Development and Coordination of the Governmental Action Bio Tchané, the Special Advisor to the President Dagnon, Minister of Justice and Legislation Detchenou, National Director of the Central Bank of West African States (BCEAO) Assilamehoo, Director of the Military Cabinet of the President General Bada, other senior government officials, the civil society, the opposition, labor unions, university students, the donor community, multilateral and regional development banks, the banking association, and other private sector representatives.

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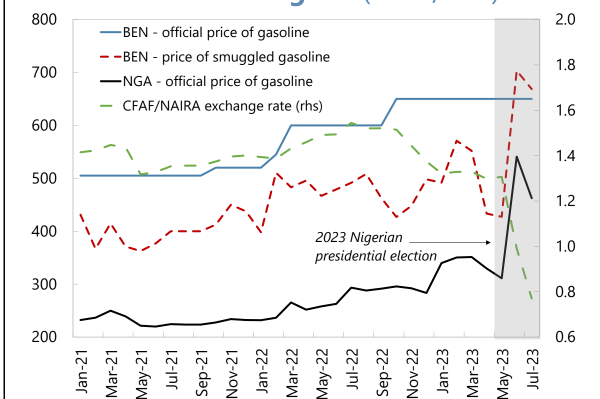
CONTEXT

1. After strong momentum going into the second half of the year, the Beninese economy faces headwinds from the recent coup in Niger and post-electoral policy shifts in Nigeria. On the one hand, Niger border closure since end-July amidst regional sanctions in response to the coup in that country is taking a toll on transit trade in Benin. On the other hand, the phase-out of fuel subsidies by the new administration in Nigeria has translated into significant increases in the price of smuggled gasoline in Benin (by about 60 percent, Text Figure 1), exerting pressure on inflation, and affecting some populations that have traditionally relied on the illicit traffic of fuel (Box 3).

2. These pressures are compounding preexisting challenges, including vulnerabilities to weather-related shocks. There are still reports of terrorist-related attacks in the Northern part of Benin. Floods and extreme heat disrupted cotton production, Benin's main source of export receipts, in the 2022–23 campaign.

Text Figure 1. Benin: Prices of Gasoline in Benin and Nigeria (FCFA/liter)



Sources: IMF IFS, Ministry of Industry and Trade of Benin, INSTAD, Central Bank of Nigeria, and IMF staff calculations.

3. The authorities have requested an RSF to complement the UCT-quality program in improving Benin's overall socio-economic resilience. Notwithstanding the challenging regional political environment, the authorities remain committed to reforms as demonstrated by robust program implementation. The 2024 budget submitted to Parliament is set to continue the fiscal consolidation started this year. The authorities are also making important strides in their structural reform agenda. An RSF would support the authorities' ambitious climate agenda—uniquely anchored in strong legal and institutional foundations. It would seek to address structural challenges that expose the economy to climate shocks and inhibit mitigation efforts, thereby reducing BOP stability risks linked to the loss of exports from extreme weather events. Benin has sufficient time remaining under the EFF/ECF to implement climate reforms under an RSF, leveraging key diagnostics such as the IMF's C-PIMA and the World Bank's Country Climate and Development Report (CCDR).

RECENT ECONOMIC DEVELOPMENTS

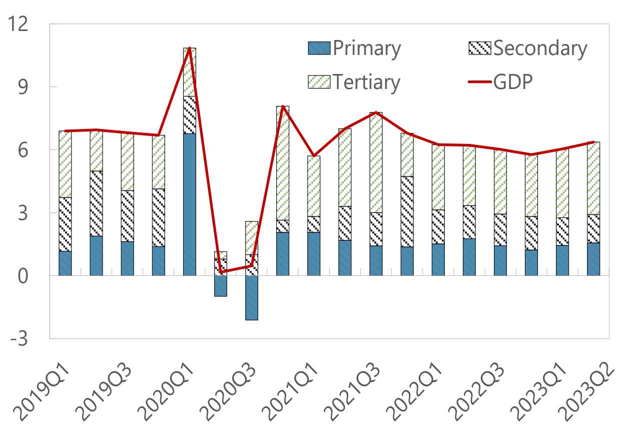
4. Macroeconomic performance has remained strong.

- **Real GDP growth** in 2023:H1 is estimated at 6.3 percent (y/y), mainly driven by trade, transport activities and agroindustry (Text Figure 2a). The strong performance of air travel and transport linked to the extraction of sand and gravel partially offset the sharp drop in port activity. The latter was driven by congestion at the port linked to pre-electoral uncertainty in Nigeria, and substitution of imports for local inputs in the production of cement and electricity.

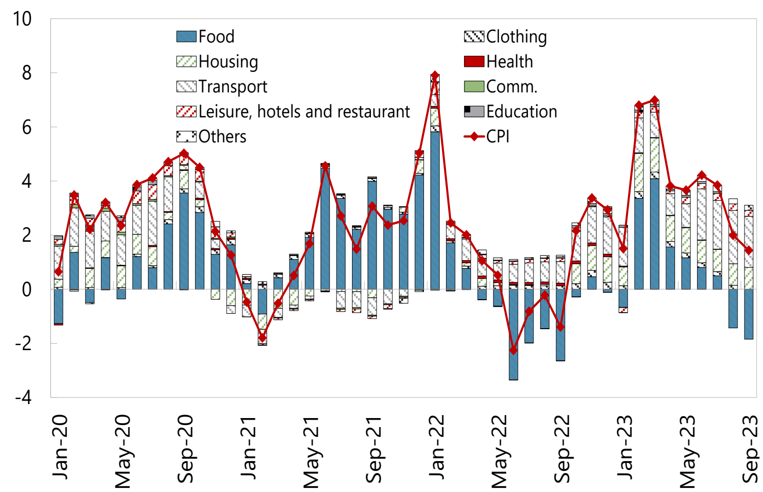
- **Inflation.** While food and housing inflation has trended downward, average inflation (y/y) during the first 3 quarters of 2023 reached 3.8 percent (Text Figure 2b) due to soaring transport costs from June to September (17 percent, y/y) as the price of smuggled gasoline shot up (about 60 percent, y/y) following pump price hikes in Nigeria. This has contributed about 2 ppts to inflation.

Text Figure 2. Benin: Recent Economic Developments, 2019-2023

Text Figure 2a. Contributions to Growth
(2019Q1-2023Q2, percentage points)



Text Figure 2b. Contributions to Inflation
(January 2020-September 2023, y/y)



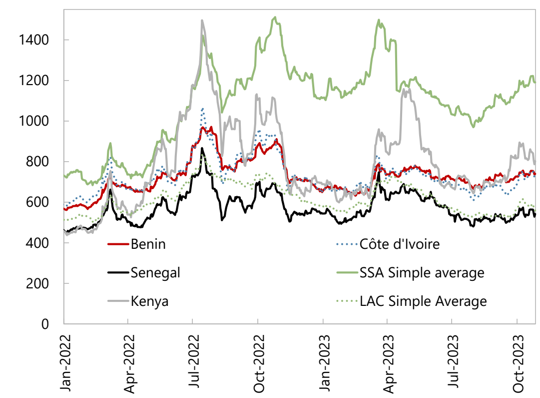
Sources: Beninese authorities and IMF staff calculations.

- **The current account deficit** in 2022 is estimated at 6.2 percent of GDP. It is currently moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex I). The current account deficit is projected to narrow slightly to 5.8 percent of GDP in 2023, as imports decrease while higher cotton prices partly offset the decline in cotton volumes amid weather-related shocks during the 2022/23 campaign.

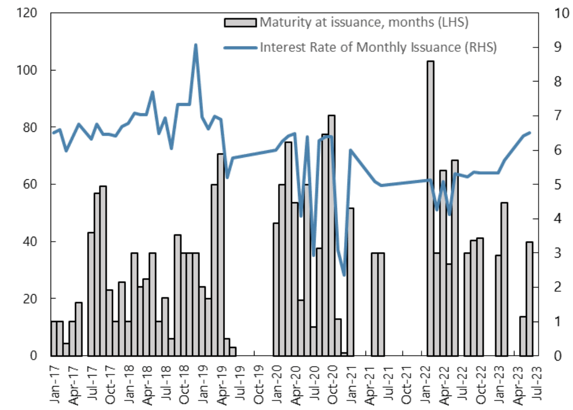
- **Credit** to private sector has continued to expand rapidly, reaching 38 percent (y/y) at end-September 2023, buoyed by construction, trade, and transport. After peaking at around 1,000 bps in mid-2022, Benin's EMBI spreads declined to 740 bps as of end-October (Text Figure 3a). S&P Global Ratings recently revised its outlook on Benin from stable to positive, while affirming the 'B+/B' credit rating.

Text Figure 3. Benin: Market Conditions

Text Figure 3a. Selected Emerging Market Sovereign Bond Spreads
(1/1/2022 - 10/26/2023)



Text Figure 3b. Yields and Maturities on Domestic Debt Issuance
(monthly weighted average, percent and months)



Sources: Bloomberg, UMOA Titres and staff calculations.

5. **Preliminary data suggest that fiscal performance through end-August remained strong, supported by tax collection** (Text Table 1). Tax revenues rose by 15 percent (y/y) in August, driven by strong performance of corporate income tax and the application of customs duties on the transactional values of goods. New tax measures implemented in the 2023 budget have also performed well, particularly the taxation of foreign service providers. Security spending was at 35 percent of the annual budget at end-September and was in line with the authorities' civilian approach, with around 70 percent going to development-oriented spending.

Text Table 1. Benin: Fiscal Outturn, August 2023
(Cumulative)

	FCFA bn	Percent GDP	Distance to End-Dec 2023 Proj. FCFA bn
Total revenue and grants	**1112.8**	**9.2**	**676.8**
Total revenue	1070.9	8.9	618.0
Tax revenue	968.5	8.0	564.1
Nontax revenue	102.4	0.9	54.0
Grants	41.9	0.3	58.8
Total expenditure and net lending	**1579.0**	**13.1**	**980.4**
Current expenditure	892.5	7.4	467.6
Current primary expenditure	725.8	6.0	436.6
Wage bill	353.8	2.9	215.5
Pensions and scholarships	64.3	0.5	44.9
Current transfers	236.4	2.0	88.7
Expenditure on goods and services	71.3	0.6	87.5
Interest	166.7	1.4	30.9
Capital expenditure	683.7	5.7	515.7
Financed by domestic resources	363.4	3.0	200.7
Financed by external resources	320.3	2.7	315.0
Net Lending	2.8	0.0	-2.8
Overall balance (commitment basis, incl. grants)[1]	**-466.1**	**-3.9**	**-303.6**

Sources: Benin authorities and IMF Staff Calculations.
[1/] The overall balance is subject to seasonality—it is typically wider than at year end, given relatively fast budget execution in the first quarters.

6. **The authorities recently raised SDG financing amid tightening financial conditions on the regional market and declining BCEAO reserves** (see DSA; Box 1). Rates on the regional market have risen since the start of the year, while maturities have also declined, with Benin issuing CFAF 116 billion in September at an average rate of 7 percent (up from 5.2 percent in 2022) with average maturity of 4 years (down from 6 years in 2022) (Text Figure 3b). The €350 million (2 percent of GDP) in SDG financing was supported by an AfDB partial credit guarantee, a first from the African Development Fund (AFD). The 12-year bond was issued at an interest rate of 2.9 percent above Euribor with a 4-year grace-period. The authorities plan to use the loan to finance SDG-related spending in the 2023 budget (substituting domestic financing), with the possibility to carry over to subsequent years.

OUTLOOK AND RISKS

7. Spillovers from regional developments are expected to weigh on growth and inflation in the near-term while the medium-term macroeconomic outlook should remain broadly in line with the Second Review (Text Table 2).

- Headline inflation is expected to reach 3.7 percent in 2023 (against 3.5 percent at Second Review)—as substantially higher price of smuggled fuel was largely offset by negative food inflation of some fresh food items—before receding to 3 percent in 2024.

- The growth forecast for 2023 has been marked down by 0.4 ppt to 5.6 percent. Considering the 6.3 percent growth rate recorded in 2023:H1, the revised annual forecast implies a growth rate of 4.9 percent in 2023:H2, one of the lowest since 2020. The downgrade in growth forecast reflects the expected reduction in transit activity due to Niger border closure and the sharp depreciation of the naira vis-à-vis the CFA franc.

- Over the medium term, growth would be at its potential, currently estimated at 6 percent, with inflation expected to stabilize at 2 percent, consistent with the peg to the euro. The current account deficit would hover around 4–5 percent of GDP.

- Benin continues to be assessed at moderate risk of external debt distress (see DSA), with limited space to absorb shocks.

8. The balance of risks to the outlook is tilted to the downside (Annex II).

- Transit trade could fall further if the Niger border closure is prolonged. By disrupting informal trade, policy shifts in Nigeria could pose transitional challenges in Benin in the near term. Higher international oil prices amidst geo-political tensions could strain internal and external accounts. Moreover, Benin remains vulnerable to extreme climate events (Annex III).

- On the upside, a sustained expansion of the Port of Cotonou and orderly development of the Special Economic Zone (SEZ) could boost FDI (¶23), strengthen the country's external position, and raise income. There could also be important medium and long-term benefits from a reformed Nigeria if illicit activities between the two countries are repurposed for higher value-added formal trade.

Text Table 2. Benin: Key Macroeconomic Indicators

	Average 2017-19	2020	2021	2022	2023	2024	2025	2026	2027	2028
		Est.	Est.	Est.			Projections			
Real GDP (percent change)	6.4	3.8	7.2	6.3	5.6	6.0	5.9	6.0	5.9	6.0
CPI inflation, average (percent)	0.6	3.0	1.7	1.4	3.7	3.0	2.0	2.0	2.0	2.0
Overall balance (commitment basis, incl grants)	-2.6	-4.7	-5.7	-5.5	-4.5	-3.7	-2.9	-2.9	-2.9	-2.9
Tax revenue	10.2	10.5	11.0	12.2	12.7	13.2	13.7	14.1	14.5	14.9
Primary expenditure	14.8	17.1	17.6	18.2	17.7	17.3	17.1	17.5	18.0	18.4
Current account balance	-4.2	-1.7	-4.2	-6.2	-5.8	-5.4	-4.9	-4.8	-4.3	-4.1
Public debt	40.6	46.1	50.3	54.2	53.8	53.1	52.0	51.1	50.3	49.5

Sources: Beninese authorities and IMF staff estimates and projections.

PROGRAM PERFORMANCE

9. **Program performance remains strong, with all end-June quantitative performance criteria (QPCs) and indicative targets (ITs) met** (Text Table 3). The primary balance and net domestic financing outturns were comfortably within targets. Tax revenues outperformed the IT by about 7 percent and priority social spending was in line with the target. Notwithstanding large SDG financing, external borrowing remained within the present value limit. Benin did not accumulate any domestic or external arrears.

10. **All Structural Benchmarks (SBs) were met** (Table 12). The authorities developed a medium-term revenue strategy (MTRS) (end-September SB). They have also prepared and annexed to the 2024 budget law a statement with a quantitative fiscal risk analysis (end-October SB), incorporating recommendations from IMF technical support, including a revision of the framework for fiscal risk analysis, notably for macroeconomic risks and those related to SOEs and public debt. The operationalization of the commercial court of appeal (end-November SB) was also met.

Text Table 3. Benin: Quantitative Performance Criteria and Indicative Targets, 2023[1]
(Billions of FCFA)

	March 31, 2023			June 30, 2023				September 30, 2023	December 31, 2023
	Indicative target (IT)			Performance Criteria (PC)				IT	PC
	Prog.	Actual	Status	Prog.	Adj	Acutal	Status	Prog.	Prog.
A. Quantitative performance criteria[2]									
Basic primary balance (floor)[3]	3.8	115.7	Met	-1.6		52.1	Met	-97.6	-13.1
Net domestic financing (ceiling)[4]	130	118.3	Met	205	204	-18	Met	372	348
B. Continuous quantitative performance criteria (ceilings)									
Accumulation of external payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	620	103	Met	620		555	Met	620	620
C. Indicative Targets[2]									
Tax revenue (floor)	321.5	361.0	Met	694.5		745.2	Met	1,071.9	1,480.0
Priority social expenditure (floor) [6]	16.4	22.1	Met	50.9		55.7	Met	105.9	170.1

Sources: Beninese authorities; IMF staff estimates and projections.

[1]The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

[3]Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

[4]Includes on-lending from the BCEAO related to the IMF disbursement. If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement.

[5]Annual limit. Contracted debt as of Aug. 30. 2023

[6] Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures.

POLICY DISCUSSIONS

EFF/ECF Arrangement

A. Fiscal Policy and Debt Sustainability

11. Fiscal policy will continue to be squarely focused on entrenching revenue-based fiscal consolidation to preserve debt sustainability. Fiscal consolidation under the program remains guided by the convergence to an overall deficit of 3 percent of GDP by 2025, in line with the WAEMU stance and consistent with maintaining Benin's risk of debt distress at least at moderate level.

The 2023 Budget

12. The authorities have mobilized additional concessional budget support, which triggers a program adjustor, allowing for a slightly larger fiscal deficit in 2023. Already confirmed budget support is higher by about 0.2 ppt of GDP than programmed (¶31), which unlocks additional spending room *as per* program design (TMU ¶7), for a revised baseline fiscal deficit of 4.5 percent of GDP. This would ease the adjustment between 2022 and 2023 (Text Table 4), without undermining tax collection. The authorities believe that they will be able to mobilize further budget support to utilize the full room of 0.4 ppt provided by the adjustor (for a deficit of 4.7 percent of GDP in 2023, from 5.5 in 2022). Staff emphasized that the envisaged spending envelope should be kept in line with the amount of the already confirmed budget support with extra spending activated only when the disbursement of the other expected budget support is confirmed for 2023. Moreover, any additional spending room should be channeled towards social sectors, including socially-oriented capital expenditure.

Text Table 4. Benin: Fiscal Adjustment Between 2022 and 2023
(Percent of GDP)

	2nd Review	Current
Overall adjustment (A+B+C+D+E)	**1.2**	**1.0**
A. New spending pressures	**-0.7**	**-0.7**
Security risk spending scale up	-0.2	-0.2
Wage bill increase	-0.5	-0.5
B. Tax revenue mobilization (net)	**0.6**	**0.6**
C. Correction for exceptional non-tax revenues [1]	**-0.3**	**-0.3**
D. Spending Measures	**1.6**	**1.2**
Reduction in one-off spending [2]	0.2	0.2
Spending repriorization [3]	1.3	1.1
E. Grants	**0.1**	**0.3**

Sources: Beninese authorities and IMF staff estimates and projections.
1/ Non-tax revenues were exceptional in 2022 due to a one-off increase in port related revenues.
2/ Includes winddown of temporary 2022 measures like election spending and transfers to local governments to purchase vehicles.
3/ Capital expenditure and recurrent expenditure reductions to accommodate priority spending.

13. Contingent revenue measures might be needed to offset the impact on custom duties of Niger border closure if prolonged. The authorities have projected a loss of 8.4 billion CFAF (0.1 ppt of GDP) for 2023 based on August data, with largest losses incurred on taxes on exports and re-exports, and corridor security charges. Considering the uncertainty surrounding that estimate (it may take some time for the full shock impact to show) and the duration of the border closure, they are stepping up control of payment of custom duties along with structural measures (such as decongestion of the port and re-routing of transit), and collection of tax arrears as mitigating factor.

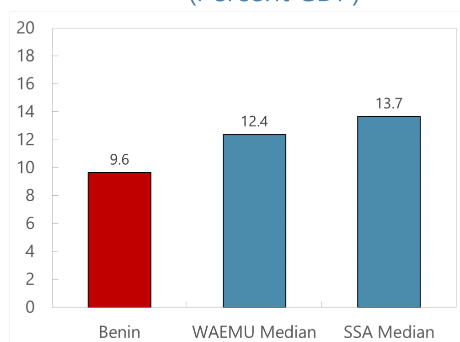
The Draft 2024 Budget Law

14. Fiscal consolidation is set to continue in the 2024 draft budget law submitted to Parliament, with a target fiscal deficit of 3.7 percent of GDP (unchanged from the Second Review). The easing of fiscal adjustment in 2023 (¶12) implies a slightly larger adjustment of between 0.8-1.0 ppt of GDP in 2024 (compared with 0.6 ppt of GDP earlier) to achieve the same deficit target of 3.7 percent of GDP. The consolidation will be underpinned primarily by additional tax measures of 0.5 ppt of GDP (¶15) and unwinding of crisis support measures, including a decline in one-off grants related to the war in Ukraine (about 0.2 ppt of GDP) and moderation of capital expenditure (0.4 ppt of GDP with the potential to go up to 0.6 ppt of GDP if additional budget support allows for a deficit above 4.5 percent in 2023). Current expenditure, low compared with peers, would remain flat (Text Table 5; ¶16; Text Figure 4).

Text Table 5. Benin: Fiscal Adjustment Between 2023 and 2024
(Percent of GDP)

Overall adjustment (A+B+C)	**0.75**
A. Tax measures	0.50
B. Grants	-0.16
C. Expenditure	0.41
Current expenditure	0.00
Capital expenditure reprioritization	0.41

Text Figure 4. Benin: Current Primary Expenditure in 2023 Compared with Peers[1]
(Percent GDP)



Sources: Beninese authorities and IMF staff estimates and projections.
1/Median values based on October 2023 WEO.

15. The authorities have identified additional revenue measures to underpin fiscal consolidation in 2024.

- The measures amount to 0.5 ppt of GDP and include a mix of tax policy and administrative measures (Text Table 6). Arrears collection remains an important revenue collection avenue. In addition, the authorities have identified contingent revenue measures (¶18).

- Going forward, the Medium-Term Revenue Strategy (MTRS), the cornerstone of Benin's reform program, will support medium-term fiscal consolidation while helping meet Benin's large development needs (Box 1).

16. Spending prioritization remains of paramount importance, considering large development, security, and climate-related needs. The public investment program will need to be carefully phased to maintain flexibility in budgeting. It should also account for spending needs in climate adaptation (¶29). The reduction in capital expenditure from 2023–24 is expected to come largely from a winddown in some infrastructure projects and security-related investment, while preserving priority social spending, particularly in the areas of electrification, clean drinking water, sanitation, and education.

Text Table 6. Benin: Estimated Additional Yields from Tax Measures in 2024[1]

(Percent of GDP)

Net Additional Yields Relative to the Previous Year (A+B+C)	**0.5**
A. Domestic taxation, *of which*	**0.6**
Removing payroll tax exemptions for public agencies	0.1
Expansion of standardized invoices to retail businesses	0.1
Clearance of domestic tax arrears	**0.4**
B. International taxation measures, *of which*	**0.4**
Application of transaction values to new goods	0.1
Improved control of customs valuation	0.1
Clearance of custom duties arrears	**0.2**
C. Revenue-reducing effects, incl. nominal GDP[2]	**-0.5**
Memo items	
Total impact of permenant tax measures	0.5
Identified contingency measures	0.4

Sources: Beninese authorities and IMF staff estimates and projections.
1/ See MEFP ¶10 (Text Table 1) for a more detailed breakdown of the tax measures.
2/ Revenue-reducing effects include i) a higher-than-anticipated nominal GDP, which increases the 2024 tax effort required to achieve the previously set tax revenue target by 0.1 ppt of GDP; and ii) foregone revenues due to remaining tax expenditures, including fuel-related (0.3 ppt of GDP).

17. The authorities should maintain a prudent borrowing strategy. They should continue to contain borrowing costs and mitigate refinancing risks, maximizing concessional external borrowing when feasible. While the authorities anticipate most external borrowing to come from multilateral and commercial creditors, they do also anticipate drawings from commercial banks albeit at longer maturities and rates below 6 percent. Additional international market borrowing (including further utilizing the AfDB partial credit guarantee) could be sought in the event regional borrowing conditions remain unfavorable, within the annual debt limit under the program. Staff emphasized the need to ensure an external and domestic financing mix consistent with maintaining a moderate risk of debt distress and mitigating rollover risk.

18. Contingency planning is essential, especially in a world more prone to shocks. Preserving the fiscal adjustment path in the event of unanticipated pressures (including revenue losses from Niger border closure and cost of potential support measures) would require proactive planning. If additional pressures materialize, the authorities should seek to implement additional (less distortionary) revenue measures (including further application of transactional values and efforts to control payment of customs duties) and/or delay non-priority investment projects, while preserving priority social spending.

Box 1. Benin: The Medium-Term Revenue Strategy (MTRS)[1/]

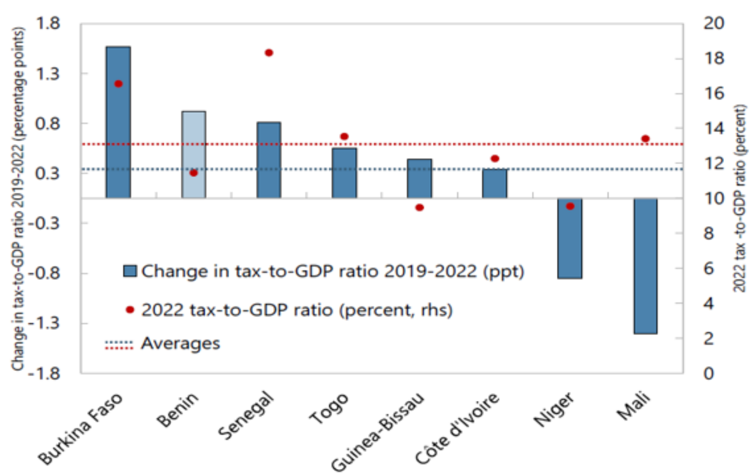
The authorities prepared a Medium-Term Revenue Strategy (MTRS) (SB for end-September 2023), which delineates the government's planned approach for widening the tax base over 2024–28. The strategy is an important step for Benin to achieve its tax potential and meet its large development needs as articulated in the country's National Development Plan.

The MTRS aims to further expand the tax base and improve the overall efficiency of the system. This will help consolidate reform efforts over the last several years. The combination of tax administration and policy reforms implemented over the past years indeed translated into stronger resilience of tax collection to shocks compared to peers (Box 1 Figure 1), supporting Benin's path towards achieving its tax potential and catching up with regional peers.[2/]

The MTRS is articulated around three "strategic pillars". These include i) enhancing tax compliance and identifying new niches, ii) consolidating systems to combat fraud and promote equity, and iii) strengthening tax administrations' capacity. These pillars are mapped into 8 specific objectives (Box 1 Figure 2) and underpinned by dozens of measures described in the strategy, together with their expected yields, stakeholders and timeframe for implementation.

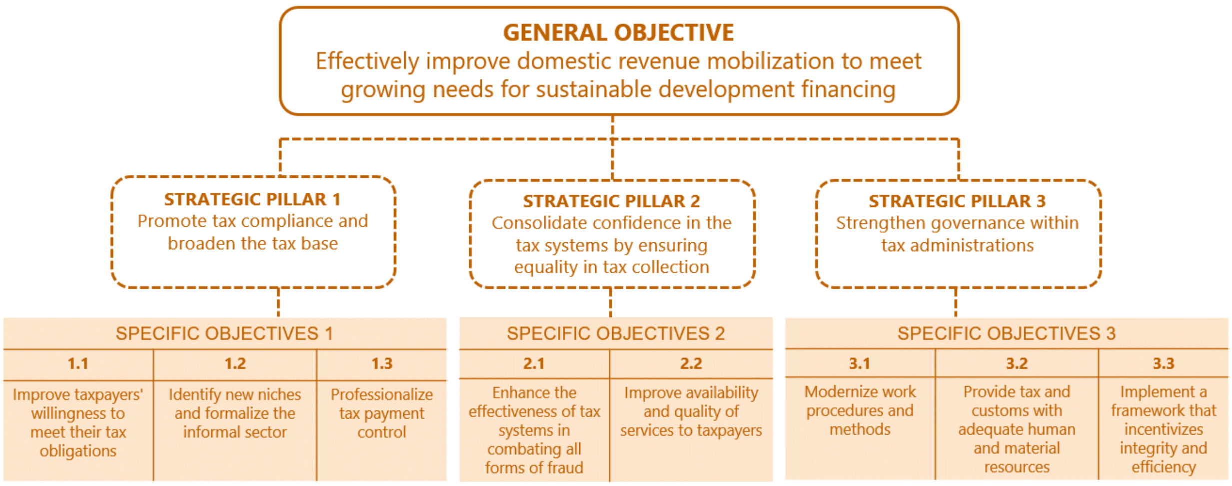
The design of the strategy benefited from extensive technical support from development partners and consultations with taxpayers. These consultations are critical for alleviating concerns over taxation, which could help secure much-needed buy-in, critical for the implementation phase of the strategy.

Box 1. Figure 1. WAEMU: Change in the Tax-to- GDP Ratios, 2019–22
(Percent of GDP)



Sources: Beninese authorities' and IMF staff calculations.
Note: The tax-to-GDP ratio for Burkina Faso excludes exceptional VAT reimbursements in 2022 (0.3 ppt of GDP), while the ratio for Benin excludes reclassifications from non-tax to tax revenue in 2022 (0.7 ppt of GDP).

Box 1. Benin: The Medium-Term Revenue Strategy (MTRS)[1/] (concluded)



Sources: MTRS

The MTRS sets an ambitious goal to raise additional 0.5 percent of GDP in revenues per year. The rationalization of tax expenditures—for instance, by removing payroll tax exemptions for public agencies—is part of the tax policy menu of the strategy (the authorities previously developed a strategy for rationalizing tax expenditure, an -end-November 2022 SB under the EFF/ECF). They authorities also plan to expand their efforts to improve compliance and enhance control through digitalization (e.g., extension of standardized invoices to retail businesses) and expand the application of transaction values at customs (Text Table 6).

Moving swiftly with the operationalization of the MTRS will guarantee that it fulfils its promise of helping Benin meet its large development needs. Already, the menu of new tax measures contained in the draft 2024 budget law drew on the strategy. Going forward, the authorities will further specify the broad measures laid out in the strategy and identify departments responsible for their implementation through annual roadmaps. They have also listed additional technical assistance needs, particularly to strengthen the technical capacity of customs administration (e.g., enhancing staff's ability to collect and exploit data to improve tax projections, risk analysis and control) and collection of non-tax revenues. Close coordination between tax and customs administration will be essential for MTRS success.

[1/] Prepared by Carolina Bloch (FAD).
[2/] See IMF Benin Selected Issues Paper "Tax potential and options for domestic revenue mobilization" (Country Report 22/246).

B. Structural Issues

19. **Strengthening social safety nets is paramount in an environment increasingly prone to shocks.** The rollout of the *Gbessoke* program, which aims to provide targeted income support to 150,000 households through cash transfers and income-generating activities, is planned for the coming months with a first cohort of 75,000 households (identified using the social registry) to be integrated into the program in December. The program's budget is CFAF 97.7 billion for the 2023–2026 period, corresponding to about 0.2 percent of GDP per year. The council of ministers has recently adopted a decree to establish the social registry (RSU). The RSU will become the prime

infrastructure for channeling targeted support to vulnerable groups at time of hardship (e.g., the recent disruption of the illicit fuel market; Box 3).

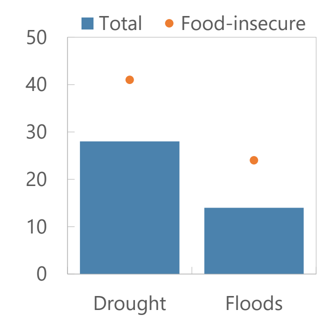
Box 2. Climate Risks to Food Security in Benin[1/]

Benin's exposure to climate change compounds food insecurity risks, with estimates suggesting that crop yields could decline by up to a third absent decisive investments in resilient agriculture. Climate change has already impaired the predominantly rain-fed agriculture through the disruption of the crop calendar, declining yields, and loss of crops.[2/] And while the impact on cotton production, an important source of export earnings, is projected to be much smaller than on food crops, reduced yields of staples will disproportionately affect the poor: Among low-income households in Benin, the share of own production in food consumption is about 50 percent, one of the highest among peers.[3/] Reflecting this vulnerability, Benin scored lowest in *Sustainability and Adaptation* in the 2022 Global Food Security Index at 38.9 points, below the SSA median of 46.7.

Food insecurity—a structural challenge—has already risen sharply in recent years. According to the 2022 AGVSAN-SA, food insecurity increased from 10 percent of the population in 2017 to almost 26 percent, affecting over 3.1 million people in Benin.[4/] While government support has averted immediate crisis in the aftermath of recent shocks, FAO data shows that, on average, a higher proportion of the population in Benin was moderately food insecure from 2019 to 2021 than in regional and income peers, emphasizing the need for structural changes.[5/]

Food-insecure people are more prone to suffer from extreme weather shocks, which could exacerbate conflicts. In 2022, 28 percent of all households were affected by drought and 14 percent by floods, while these proportions were 41 and 24 percent, respectively, for food-insecure households (Box 2 Figure 1).[6/] Apart from affecting crop yields, these events pose a threat to livestock, a key asset in many communities. Moreover, the extension of cropland into pasture areas and sedentarization of transhumant communities exacerbates farmer-herder conflicts.

Box 2. Figure 1. Shares of Benin's Population Affected by Natural Disasters, 2022



Sources: WFP and Beninese authorities.

[1/] Prepared by Markus Specht (AFR).
[2/] See Ezin et al., 2018, "Agriculture and food security under threat of change climate in Benin," *African Journal of Agricultural Research;* Akpa and Nonvide, 2023, "Effects of Climate Change on Food Crop Production in Benin," *Climate Change Economics*.
[3/] FAO, 2023, *The State of Food Security and Nutrition in the World 2023*, p. 81.
[4/] WFP and Government of Benin, 2022, *Analyse Globale de la Vulnérabilité, de la Sécurité Alimentaire, de la Nutrition et des Systèmes Alimentaires (AGVSAN-SA)*.
[5/] See *IMF Country Report No. 23/175, Annex IV: Food Insecurity in Benin—Tackling Structural Challenges in Agriculture*.
[6/] AGVSAN-SA, p. 75.

20. **Increasing food insecurity deserves renewed policy focus, considering the impact of climate shocks on agriculture** (Box 2). The authorities see their school feeding program (PNASI), currently managed with World Food Program support, as a mechanism to fend-off food insecurity risk while keeping children at school. They expect the program to cover all public primary and secondary schools by school year 2025–2026 (75 percent are currently covered). The law establishing the PNASI as a government-operated program was adopted by the council of ministers in April (SB under the EFF/ECF). The authorities are developing internal structures to facilitate the

transition—for instance by putting in place a national agency for food and nutrition and strengthening competitiveness of small-scale producers (e.g., by supporting the creation of cooperatives and clusters to facilitate local purchasing). Bolstering the local production of a variety of nutritious and safe food items is a key policy priority which will not only enable the PNASI to operate effectively but would also reduce the impact of future shocks to agricultural production.

21. While the ongoing phase out of fuel subsidies in Nigeria is generally an opportunity for Benin, it entails BOP costs and loss of income for some population groups, requiring a careful management of the transition (Box 3).

- Recent pump price hikes in Nigeria have eliminated the price differential between formal and smuggled gasoline in Benin. This has incentivized the shift towards formal demand for fuel by Beninese households, increasing its share from 11 to 27 percent.
- The 2023–24 fuel subsidy bill is now projected to around 0.4 ppt of GDP under current oil price forecasts (and assuming that the above partial shift to formal gasoline consumption is not reverted).
- A higher cost of smuggled gasoline provides an opportunity for developing the local fuel distribution network in Benin—undermined over decades by the illicit traffic of fuel. This would also generate revenues and reduce households' vulnerability.
- If international oil prices remain elevated amidst geo-political tensions, the authorities are committed to adjust pump prices further in the near-term as needed to contain the budgetary cost of fuel subsidies, considering the impact on formal demand for fuel vis-à-vis the informal counterpart smuggled from Nigeria (volume effect). Fuel pricing could be further informed by the pending IMF TA on fuel subsidy reform.

Box 3. Implications for Benin of the Phase out of Fuel Subsidy in Nigeria[1/]

The ongoing phase-out of fuel subsidies in Nigeria post-elections has widespread spillovers onto Benin. This reflects the large share (90 percent) of smuggled gasoline in the gasoline consumption of Beninese households amidst longstanding fuel smuggling activities and networks. While the policy shift in Nigeria entails transitional costs for Benin, it also presents a unique opportunity for Benin to durably reform its local fuel market: an energy subsidy reform in Nigeria would reduce the size of the informal fuel market in Benin, alleviating safety challenges associated with illicit trade of fuel, and generate additional fuel taxes to the government, especially of pump prices are adjusted concomitantly in Benin.

Recent pump price hikes in neighboring Nigeria have led to significant increases in the price of smuggled gasoline in Benin. The price of gasoline was raised by 152 percent in Nigeria between May and July, leading to a sharp increase in the price of smuggled gasoline (the so-called *kpayo*) in Benin by 65 percent to more than FCFA 700 liter in June, above the official price (FCFA 650), before stabilizing around FCFA 650. The pass-through was partially mitigated by the depreciation of the naira vis-à-vis the CFAF as Nigeria also sought to unify its foreign exchange market (Text Figure 1). The price index of transport jumped by 9 percent in June 2023. This has added some 2 ppts to inflation as of August, with second round effects to follow as the *kpayo* is used as input by informal (and some formal) firms.

Box 3. Implications for Benin of the Phase out of Fuel Subsidy in Nigeria[1/] (concluded)

The smuggling of fuel is likely to continue for some time, considering the current structure of the fuel market and the sophisticated and deeply rooted fuel smuggling networks.

- Decades-long gasoline smuggling activities and a pervasive distribution network (close to 54,000 *kpayo* sales points according to a recent survey) have disincentivized the expansion of the gas stations network beyond the south and the main cities—37 out of the 77 communes of Benin currently do not have a single (formal) gas station, and remain highly dependent on the *kpayo,* often at a price above the official price. This, along an underdeveloped fuel storage capacity, has translated into a low elasticity of substitution of supply: the formal supply of gasoline initially increased from 4,500 m3 per month prior to June to 18,000 m3 in June and July before gradually receding to 13,000 m3 per month in September, making only a small dent in the informal gasoline market (the size of the informal market of gasoline was estimated at roughly 54,000 m3 per month prior to the shock).
- Fuel smuggling activities have for long acted as a shock absorber in Benin (IMF, 2022).[2/] The illicit market for gasoline is estimated to be a direct source of employment and income for more than 150,000 persons (near the size of the entire public sector),[3/] with 1.5 percent of Beninese households involve in the retail sale of fuel (see 2018/19 household survey). Moreover, the availability of the cheap *kpayo* has long supported the development of the moto-taxi transport activity absent public transport, providing jobs to more than 120,000 persons (INSAE, 2019). Higher *kpayo* prices would translate into higher transport and production costs, taking a toll on economic activity and causing hardship in the near term.[4/]

In the medium term, energy subsidy reform in Nigeria, if sustained,[5/] would lead to a better reallocation of resources and higher tax revenues in Benin. Informal sales of gasoline would decline, paving the way for the expansion of the formal fuel distribution network. A tax of CFAF 143 per liter is currently collected on official gasoline prices. Higher formal gasoline sales will in turn generate higher tax revenues.

The government has responded by a gasoline pump price hike and designing measures to support the expansion of the fuel distribution network. Official prices of gasoline were increased in August by 40 CFAF (4.6 percent), to FCFA 680, bringing in line with *kpayo* price levels. In parallel, a pilot of 2000 mini-stations spearheaded by the government is being implemented to foster the formalization of *kpayo* in view to address safety concerns and levy taxes (*kpayo* is often unsafely stored in large informal depots and mini-tanks in households, often leading to fire incidents).

[1/] Prepared by Younes Zouhar (AFR; Resident Representative).

[2/] IMF, 2022, "Formal and Informal Trade Ties with Nigeria: Evidence from Broder Closure," Country Report No. 2022/246.

[3/] According to a 2010 survey, fuel smuggling activities generated 40,000 to 50,000 jobs (1.2 percent of the labor force) and CFAF 105 billion (around US$172 million), equivalent of [1] percent of GDP, every year.

[4/] Simulations by Fund staff suggest that a 40 percent increase in oil prices would reduce growth by about 7 percentage points for oil importing, low-income sub-Saharan countries (IMF, 2011). In the case of Benin, the effects may be compounded by the fact that the increases in gasoline price in Nigeria are passed through immediately and fully to the informal market.

[5/] Unlike failed reform attempts in the past (e.g., January 2012), the current reform momentum and impetus for the energy subsidy reform could be sustained given its critical importance for Nigeria public finance and sustainability of local refinery.

C. Leveraging Governance Diagnostic for Private Sector Development

22. The authorities' continued efforts to enhance the rule of law, the anti-corruption and AML/CFT frameworks will bolster the institutional foundations of private sector-led inclusive growth.

- Following extensive inter-ministerial consultations, the authorities have prepared a draft of the action plan for addressing recommendations from the IMF governance diagnostic. Staff underscored the need to start consultations with the public on the plan soon to foster buy-in and accountability and accelerate its implementation.

- Efforts to strengthen the legal and institutional framework for anti-corruption are underway, in consultation with IMF staff.

- Progress on the AML/CFT front includes the designation, by decree, of an AML/CFT supervisor for the gambling sector and the conduct of risk assessments, including on terrorism financing as well as on ML/TF risks in the real estate sector. The authorities will continue to address AML/CFT vulnerabilities in the real estate sector going forward (¶23).

23. Drawing on the (overall encouraging) findings of the IMF governance diagnostic, program conditionality is being augmented with new SBs.

- **AML/CFT framework.** The National Assets and Lands Agency (ANDF) will be designed as the AML/CFT supervisor for the real estate sector. In addition, the authorities will establish a legal framework which requires the collection and verification of beneficial ownership information of landholders at the time of transfer of land and the publication of this beneficial ownership information on a government website (***proposed new Structural Benchmark for end-April 2024***).

- **Transparency.** Drawing on the findings of the recent IMF Fiscal Safeguards Review, the authorities have been updating the list of bank accounts of public organizations (the updated survey suggests that there are about 1,500 bank accounts, of which 1,400 do not have the derogation granted by the Minister of the Economy and Finance). The authorities will aim to close at least half of those without derogation, repatriating the balances to the public Treasury (***SB for end-June 2024***). In addition, the (reformed) Audit Court will establish and operationalize a committee to monitor implementation of its audit recommendations, in line with international standards (***proposed new Structural Benchmark for end-February 2024***).

- **Business climate.** The authorities will pursue their engagement to modernize the land administration (*Agence Nationale du Domaine et du Foncier ANDF*) to enhance transparency and improve access to finance. After the digitalization of the processing of land titles requests, they will extend the online land registry (*e-cadaster*) to fully cover the city of Cotonou and systematically update land transactions in the *e-cadaster* (***proposed new Structural Benchmark for end-April 2025***).

- **SEZ.** Staff encouraged the authorities to enhance transparency in the selection and monitoring of SEZ-related incentives, avoid weakening revenue administration and reduction in revenue collection.

24. Renewed vigilance by supervisory authorities is paramount to ensure financial stability.

- The issues at the two formerly undercapitalized banks have been resolved. The first bank successfully completed its recapitalization at end-December 2022. The WAEMU Banking Commission approved in July the request to modify the shareholding structure of the second bank (the envisaged plan relying on new capital injections will allow compliance with prudential norms by 2025).

- Notwithstanding the generally upward trend in the banking sector's CARs, with a solvency ratio at 16.2 percent at end-December 2022, well above the norm of 11.25 percent, one small bank, accounting for less than 5 percent of total banking sector's assets, failed to meet the regulatory capital minimum. The Banking Commission is closely assessing scenarios to bring it in compliance with prudential norms.

- While NPLs have been trending down (5.7 percent, y/y, at end-August 2023, from 7.2 percent at end-December 2022), a prolonged closure of the border with Niger could give rise to NPLs and reduce liquidity in banks with high exposure to securities of Niger sovereign. The BCEAO is following up closely in coordination with the regional banking association on spillovers on the banking system from the Niger border closure, considering the level of exposure of some Beninese banks to transit trade and transport, as well as sovereign security holdings. In fact, while securities of Niger government held by Beninese banks and maturing between August and October amount to only CFAF 4 billion or 2.9 percent of total regional securities of Niger sovereign, this represents 10 percent of total WAEMU securities held by Beninese banks.

D. Building Resilience to Climate Change

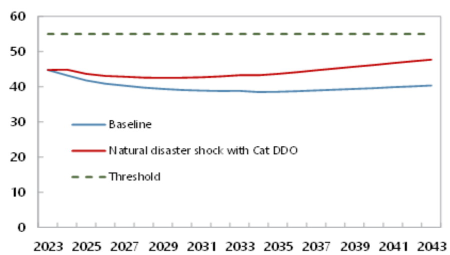
25. As one of the most vulnerable countries to climate hazards worldwide (Annex III), Benin is subject to significant risks to BOP stability. The effects of climate change are already apparent with more frequent and severe heatwaves, floods, and droughts. Weather-related shocks to agriculture could reduce exports—as seen in the recent decline in cotton exports—while coastal erosion and extreme weather events could disrupt port activity (Benin's main growth engine), and the nascent tourism sector, all sources of foreign exchange earnings. Climate change could also have serious implications for food insecurity (Box 2) and debt sustainability (Box 4 and DSA).

26. If left unaddressed, climate change could also have a severe economic impact and a human toll on the population. Labor productivity losses from higher temperatures through heat stress and the increased spread of disease are expected to be the primary drivers of climate-related economic losses. Climate change disproportionally affects some population groups in Benin, with poor households and women being the most exposed given their higher employment in the informal sector and agriculture and fewer resources to respond to climate-related shocks. Moreover, children in Benin are the 15th most exposed to climate shocks in the world. Rural households are twice as likely to experience the impact of climate shocks compared with their urban counterparts.

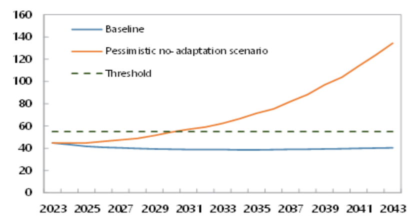
Box 4. The Cost of Climate Inaction[1/]

This box draws on the World Bank's CCDR and other modeling tools to illustrate the cost of inaction in climate adaptation in Benin. Tailored scenarios suggest that Benin's debt sustainability, while relatively resilient to one-off shocks, could be significantly imperiled in the long term absent decisive climate action (see also DSA).

Box 4. Figure 1a. Benin: PPG Debt-to-GDP Ratio, 2023-2043



Box 4. Figure 1b. Benin: PPG Debt-to-GDP Ratio, 2023-2043



Sources: Beninese authorities, World Bank CCDR MANAGE simulations, and IMF staff calculations.

Climate change risks are incorporated into the DSA in a twofold manner: (i) a customized natural disaster stress test (calibrated in line with the shock used for the IMF DIGNAD[2/] model; Annex IV); and (ii) an alternative no-adaptation scenario, to account for long-term structural risks.

The stress test reveals that the PV of debt-to-GDP ratio would increase in the event of a natural disaster, with the WB-financed contingent line mitigating the effect on debt sustainability. The shock is calibrated to simulate a catastrophic flood event like the one experienced by Benin in 2010. It includes a provision for immediate liquidity on relatively favorable terms through disbursements of the World Bank's Catastrophe Deferred Drawdown Option (Cat DDO), contingent upon such a shock (see DSA). Nevertheless, the PV of PPG debt-to-GDP ratio would be about 5.2 ppts higher over the long term than under the baseline (Box 4 Figure 1a).

Public debt is on an unsustainable trajectory under the no-adaptation scenario (Box 4 Figure 1b). Projections from the World Bank CCDR[3/] were used to reflect adverse climate impacts, totaling real GDP losses of up to -16 percent of GDP by 2043, primarily through losses in labor heat stress and productivity.[5/] Public debt under this scenario would increase dramatically and quickly become unsustainable, with the PV of debt-to-GDP ratio continuously above its threshold starting in 2030, mainly due to rising GDP losses along the projection horizon in the absence of strong adaptation policies.

[1/] Prepared by Markus Specht (AFR).
[2/] Debt, Investment, Growth, and Natural Disasters Model.
[3/] Publication forthcoming.
[4/] The CCDR MANAGE is a single-country recursive dynamic computable general equilibrium (CGE) model, designed to focus on energy, emissions, and climate change. Climate change is likely to have direct and indirect effects on the Beninese economy. The former are introduced in the macro and micro models through damage vectors (i.e., channels such as sectoral and labor productivity, labor, and capital supplies) estimated using a biophysical model (see CCDR chapter 3.1). The Benin CCDR models 10 damage channels: 1. heat stress and labor productivity; 2. heat-related human health shock; 3. water, sanitation, and hygiene; 4. clean cooking; 5. livestock yields; 6. rainfed crops; 7. Erosion; 8. inland flooding; 9. sea level rise and storm surge; and 10. tourism. The modeling of the channels is based on country-specific climate scenarios and biophysical effects models to estimate economic damages. These estimated damages are subsequently introduced as shocks into the CGE to estimate the effect on GDP and other macroeconomic aggregates. Microsimulations are used to model the subsequent impact on poverty.

27. Notwithstanding the authorities' efforts, Benin faces considerable financing needs related to climate change, which would also have a BOP impact (Annex III). According to its Nationally Determined Contribution (NDC), Benin will need US$8.6 billion and US$1.8 billion of financing for mitigation and adaptation, respectively. Although building resilience to climate shocks and supporting mitigation efforts would generate higher import needs in the near term, particularly for infrastructure, it would help mitigate BOP stability risk over the longer term (Annex IV). From a sovereign standpoint, Benin has made positive advances. The National Fund for Environment and Climate (FNEC) has been accredited by the Green Climate Fund (GCF) in 2020, making Benin one of only eleven sub-Saharan African countries to secure GCF accreditation. Notwithstanding these developments, the country's needs outstrip the flows.

28. The authorities propose a 24-month arrangement under the RSF to support their ambitious climate agenda. The RSF will aim to address structural challenges of resilient infrastructure and agriculture that leave the economy exposed to climate shocks, thereby mitigating BOP stability risks linked to the loss of exports from extreme weather events. The proposed reforms are consistent with the authorities' existing adaptation and mitigation plans and informed by the gaps identified in the C-PIMA (Annex III; Box 1) and CCDR. Considering the potentially severe human impact of climate change, the proposed RSF design seeks to enhance the resilience of the population while addressing key structural challenges to alleviate BOP stability risks. This design feature is consistent with the authorities National Adaptation Plan (NAP), which includes addressing the human costs of climate change and increasing resilience of vulnerable and marginalized groups as a priority. The reform package is in synergy with (and complementary to) ongoing or being developed programs, particularly the forthcoming WB DPO series (Text Table 7).

29. Reform Measures (RMs) evolve around the following four main pillars: (Table 13).

- **Pillar 1: Mainstreaming the climate agenda in policymaking and PFM/PIM processes.** This pillar will enhance transparency around climate costs and risks. With respect to PFM, the authorities need to produce by FY25 a climate budget brief to enhance information for budget allocation choices, building on the existing climate brief first published in the 2023 budget documentation. An institutional framework (first at the level of secondary legislation in the absence of any plan to modify the Organic Budget Law over the period covered by the RSF) for the production of this brief will be defined and adequate collaboration mechanisms between Ministry of Finance, Ministry of Environment and line ministries ensured (RM4). The State-Owned Enterprise (SOE) framework legislation can be completed by an implementing decree to integrate climate considerations in SOE ownership policy and pave the way to a SOE report appended to the FY26 budget incorporating climate considerations (RM3).

  Benin can also improve its PIM system by integrating climate aspects into the legal framework for project identification, appraisal, selection and *ex-post* evaluation (RM1), and by developing and implementing climate-informed maintenance policies for public infrastructure (RM2).

Text Table 7. Benin: Climate-Related Priorities Supported by Development Partners

Key Country Challenge	Climate-Related Priority	Diagnostic reference	Development partner involvement
Social Safety Nets	To strengthen the sustainability and adaptability of the social protection system, establish responsibilities and resources for the identification of households living in flood-risk areas to be integrated into the social registry	World Bank CCDR	World Bank DPO
Cities exposed to climate hazards	To reduce climate risks in cities, adopt and submit to Parliament the draft Urban Planning Code (*Loi sur l'urbanisme*), taking into account environmental sustainability, climate change adaptation and hazard assessment in urban planning and development (via transmission decree).	World Bank CCDR	World Bank (DPO and Building Resilient and Inclusive Cities Program)
Coastal Erosion posing risks to the economy	To reduce the impact of climate change on coastal erosion, adopt decrees (i) creating and approving the statutes of the national unit for the protection and management of the coastline and its subdivisions and (ii) setting the terms and conditions for implementing the directives for the development and enhancement of the coastal zone (via decrees).	World Bank CCDR	World Bank DPO AfDB
National Disaster Risk Management	To strengthen the national disaster risk management system, adopt a decree defining the measures and procedures to enhance disaster risk preparedness, financing, and response (via decree).	World Bank CCDR	World Bank DPO
Vulnerable agricultural sector	Implementing appropriate climate-smart agricultural techniques in line with MAEP strategy on climate-smart agriculture. Upscale agroforestry through farmer-assisted natural regeneration.	World Bank CCDR	UNDP
Need to scale up renewable energy sources	Strengthen the investment climate for ambitious investments in solar PV	World Bank CCDR	Millennium Challenge Account EU
Water Security	To adequately implement of the National Action Plan for Integrated Water Resources Management (PANGIRE)	WB CCDR	Netherlands Japan EU

- **Pillar 2. Enhancing adaptation to climate change and strengthening populations' resilience.** Improving the population's capacity to withstand climate shocks is a cornerstone of the proposed RSF. Specifically, adaptation areas covered under the RSF will include:

  - ***Water management.*** Strengthened water management supports efficient allocation of resources, given that climate change exacerbates competition between different uses (drinking water, agriculture, hydro-power generation), ultimately making the population and the economy more resilient to droughts. Water management in Benin is currently fragmented, with limited-inter-ministerial coordination and collaboration as well as data challenges hindering comprehensive planning. The RSF will focus on enhancing governance amongst public entities involved in water resource management by strengthening the mandate of the National Water Council, supporting its operationalization especially with respect to management of groundwater resources – a key factor both for access to drinking water and for a climate-resilient agriculture (RM5). The RSF will also aim to reform water tariffs in urban areas to promote conservation and to improve allocation of scarce resources (RM6).

- ***Local and community government.*** The RSF will aim to enhance resilience at the local level by incorporating climate-related criteria into the allocation of State investment grants to communes (RM7).
- ***Social protection***. In coordination with the World Bank, the RSF will aim to enhance the shock-responsiveness of Benin's SSN by supporting the development of a climate-proof social registry (RSU+). This would require gathering and updating data on population groups more prone to natural disasters (such as flooding), with a view to channel support when a natural disaster occurs (RM8).
- ***Agriculture***: Leveraging existing programs (FNDA) and building on a feasibility study prepared by the Swiss Development Corporation, the RSF will aim to establish an agricultural insurance mechanism enhance climate resiliency the benefit of a minimum of 100,000 producers by the end of the RSF program (RM9).
- ***Building code*****:** The RSF will aim to adopt a building code and requisite secondary legislation that incorporate technical standards favoring adaptation to future climate conditions to strengthen buildings' resilience against floods, heavy rains and increased heatwaves, as well as enhancing energy efficiency (RM10). This reform measure will complement ongoing work supported by the World Bank on urban planning: while the work on urban planning will lead to better informed choices for localization of housing and infrastructure, the work on building code and secondary legislation will improve the resilience of new constructions.

- **Pillar 3: Supporting mitigation efforts.** Although Benin's contributions to global greenhouse gas emissions are very limited, climate mitigation will be necessary along the country's development path. In addition to containing fiscal cost, a comprehensive fuel subsidy reform informed by upcoming FAD CD (RM11) will preserve competitiveness as the global economy transitions away from fossil fuels; it will also signal Benin's commitment to the global climate agenda. Such a measure will complement ongoing pump price hikes towards cost recovery levels under the EFF/ECF. To mitigate the negative impact of this measure on poverty, it will be essential to design a compensatory mechanism for the vulnerable population using the Social Registry (RSU). This will require the adoption of an implementation framework for the social registry (RSU), defining the governance structure of the Management Information System (MIS) and providing detailed operational guidance (RM12). The RSF will also aim to implement a comprehensive electricity tariff reform to remove subsidies that indirectly support fossil fuel emissions (RM13) as well as remove obstacles that remain to the development of renewable energy, building up on work already supported by the Millennium Challenge Corporation (RM14). These measures in line with the objectives of the government National Electrification Strategy (SNE) to achieve universal access to electricity by 2030, will require a total investment of around US$1.1 billion over the ten-year period (or 5 percent of 2022 GDP; World Bank CCDR, 2023) with potential BOP implications through higher imports and current account deficits.

Box 5. Benin: Mobilizing Private Climate Finance[1/]

Considering that the private sector would have to cover most of climate investment needs, public–private risk sharing is critical.[2/] Barbados and Rwanda provide two examples of intensive collaboration across stakeholders and innovative use of financial resources to crowd in private climate investments in the context of the RSF (GFSR Chapter 3, 2023). Blended finance is increasingly considered by development banks in West Africa given its role in mitigating project exit costs and crowding in private finance.

Prospects for private climate finance appear favorable in Benin, considering the country's strong institutional and legal foundations for climate and blended finance. Benin benefits from relevant experience with innovative sovereign financing and SDG impact assessment, and an active portfolio of climate-related projects led by multilateral and regional development banks. It is perceived by financial market participants (including local, regional, and global commercial banks) as an active country in the region in terms of financial mobilization for climate and socioeconomic resilience. In addition, the *Caisse des Dépôts et Consignations du Bénin* (CDCB), a public financial institution established in 2018, is perceived as an important stakeholder: it acts in support of public policies conducted by state and local authorities, by ensuring the mobilization and secure management of domestic savings and regulated funds, which it channels to finance public and private sector development. CDCB invests mostly in equity, with the objective of catalyzing banks' investment in the country.[3/]

The RSF has the potential to foster private climate finance in Benin. The current AfDB-supported green financing facility project at the CDCB (Annex III) may result in the creation of a mixed financing instrument. In this context, the RSF, supported by the convening power of the IMF, can act as a catalyst by bringing together Beninese authorities and CDCB, multilateral and regional development banks, and the private sector to support the design of a blended finance structure that would allow the public sector to improve the risk–return profile of investment opportunities and broaden the private investors base. In addition, various domestic and international stakeholders see the development of a climate information architecture (RM15) as a valuable foundation for scaling up private climate finance. Benin could be a pioneer in the sub-region in this regard.

[1/] Prepared by Charlotte Gardes-Landolfini (MCM).
[2/] Financing structures that allow for pooling, diversification, and credit enhancements can indeed help reduce the cost of private capital and attract a broad range of institutional investors.
[3/] In addition, CDCB enables development banks to adopt a systematic approach to project financing management, while facilitating the mobilization of domestic resources. CDCB's sectoral prioritization is in line with Benin's NDC and NAP: while the focus on mitigation remains key to ensure Benin's low-carbon industrial development and avoid the risk of lock-in, adaptation is also gaining traction (primarily in agriculture).

- **Pillar 4. Mobilizing climate finance from the private sector**. Private climate finance (both domestic and international) is needed to close Benin's climate financing gaps (Box 5). The RSF would build on Benin's existing SDG bond framework and sustainable issuance experience, from the sovereign standpoint, to enhance the climate financial information architecture (RM 15). The Ministry of Economy and Finance will adopt by way of legislative decree (*arrêté*) two complementary frameworks. First, developing a climate-related taxonomy framework that encompasses Benin's adaptation and transition investment targets and private financing instruments. Such a taxonomy will need to be well connected with the country's climate-related objectives and financing strategies. Second, developing a climate mitigation and adaptation data collection and dissemination mechanism, connected to the taxonomy, across key (private) sectors and economic infrastructures. It will consist in equipping the National Institute for Statistics and Demography with the mandate and tools to collect climate-related data from companies (including large SMEs and SOEs), thereby requiring the adoption of an *arrêté* under the 2022 legal framework governing the Institute's missions. This could have positive spillovers to other WAEMU countries, by providing the private sector a comprehensive reference framework for climate investment (complementary to the sovereign framework), aligned with Benin's climate-related targets and needs, and building on robust climate data.

PROGRAM MODALITIES

30. EFF/ECF financing assurances. Notwithstanding the recent SDG loan, financing needs under the program remain unchanged with the loan boosting Benin's contribution to BCEAO (pooled) reserves, currently on a downward path. The disbursements will take the form of budget support. The program remains fully financed, with firm commitments for the upcoming 12-month period, and good financing prospects until the end of the program.

31. Burden sharing has improved significantly under the EFF/ECF (Text Table 8), with additional budget support for 2023 and 2024. For 2023, in addition to the budget support expected from the World Bank (US$150 million) and EU (about US$16 million), Benin has mobilized 0.2 ppt of GDP budget support from the AfDB (US$33 million) and AFD (US$19 million). Additionally, the WB has approved a US$80 million Catastrophe Deferred Drawdown (CAT-DDO) contingent financing instrument under the DPO, which could be unlocked in the event of a natural disaster. For 2024, on top of the previously expected budget support from the World Bank (US$150 million) and EU (US$38 million), financing is expected from the AfDB (US$33 million). There is also scope for additional US$30 million in fully fungible budget support from the EU as part of a program to promote electrification and energy efficiency.

32. RSF Modalities

- **Eligibility.** Benin meets the RSF eligibility criteria based on its per capita GNI. It is a Group B country for the purpose of interest charges.[1]

- **Proposed access.** The authorities have strong legal and institutional foundations to support a successful RSF. Staff support the authorities' request for 120 percent of quota (SDR 148.56 million) based on their commitment to a strong reform package, which entails critical, far-reaching, and strong climate reforms that address both climate adaptation and mitigation

Text Table 8. Benin: Burden Sharing[1] (in CFA francs)

	Program approval	Second Review	Third Review
Financing gap	**755**	**821**	**847**
Budget support	**343**	**402**	**433**
Grants	175	57	53
Loans	168	345	380
Vaccination support (WB)	17	17	17
IMF[2]	**396**	**403**	**397**
Memo items			
Financing gap (Percent 2023 GDP)[3]	6.5	6.9	7.1
IMF share of financing gap (Percent total gap)	52	49	47

Sources: Beninese authorities, IMF staff calculations.
1/ Based on firmly committed budget support with the potential for upside.
2/ Changes in IMF financing exclusively due to changes in SDR exchange rate movements.
3/ Increase in the financing gap since program approval related mainly to a wider current account due to exogenous factors (higher oil and food prices and reduction in cotton volumes due to weather-related events).

[1] See ¶43 in Proposal to Establish a Resilience and Sustainability Trust (IMF, 2022).

(Table 13) as well as Benin's adequate capacity to repay (¶34). The package is ambitious, aiming to implement permanent and difficult reforms including a comprehensive fuel subsidy reform, electricity and water tariff reform, as well as structural adaptation measures. These would be complemented by other far-reaching measures as part of the authorities' MEFP commitments (beyond the RMs in Table 13), including the collection and dissemination of geo-localized data (a cross-cutting issue to address scarcity of data on climate risks). RSF disbursements would be used for budget support to substitute for more expensive financing, thus providing policy space in the medium term and enabling the authorities to build further buffers.

- **Duration and phasing.** The RSF would last for two years, starting in December 2023 with phasing depending on the completion of RMs (Figure 6 and Table 11).

- **Catalytic role.** In line with their approach of leveraging Fund support to secure donor funding and SDG financing under the ongoing EFF/ECF (Annex III), the authorities are seeking climate support from other development partners. By sending a strong signal to donors and investors regarding the authorities' climate ambitions, the RSF reform package would help catalyze additional climate financing (including from private sources).

33. Program monitoring. Program performance for both the EFF/ECF and RSF will be monitored through semi-annual program reviews based on quantitative performance criteria, indicative targets (Table 7), structural benchmarks (Table 12), and reform measures (Table 13). Structural conditionality has been augmented to include new SBs to support the authorities ongoing effort to strengthen the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework, transparency, and the business climate (¶23).

34. Capacity to repay the Fund remains adequate. Benin's established track record in fiscal responsibility combined with the favorable medium-term outlook, indicates sufficient capacity to repay the Fund (Figure 5 and Table 9). The total amount of outstanding credit from the Fund including the proposed new RSF arrangement will amount to 543.6 percent of quota in 2023 and increases to 656.2 percent of quota in 2025.[2] Total obligations based on existing and prospective credit (including RSF arrangement) will peak at 0.5 percent of GDP (2.8 percent of total revenues excluding grants and 2.1 percent of exports) in 2029.

35. The program remains subject to high uncertainties and risks and continues to require careful contingency planning. These include uncertainty at the regional level, sharp ToT deterioration, prolonged impact of heightened regional security situation, tightening of financing conditions, as well as climate-related shocks (Annex III). The authorities' continued commitment to fiscal responsibility and renewed focus on social and climate issues, including under the prospective RSF, are important mitigating factors. They should also stand ready to adopt additional revenue measures should the yields of budgeted ones fall below expectations.

[2] The total amount of outstanding credit from the Fund without the new RSF arrangement will peak at 549.8 percent of quota in 2024.

For the RSF, the implementation of some reform measures rely on timely delivery of capacity development activities (¶38); any delays could result in delayed disbursements.

36. Enterprise risks associated with Benin's EFF-ECF arrangements are limited. Benin has a relatively small share of credit outstanding in terms of GDP compared to peers with access to GRA and PRGT resources. It maintains adequate capacity to repay the Fund and a moderate risk of debt distress, which mitigates enterprise financial risks (¶34). Uncertainties around the outlook could complicate staff assessment (¶35). Strong engagement with civil society on difficult policy tradeoffs facing Benin should mitigate stigma. Although Benin faces security risks, those are currently circumscribed in the North, limiting potential operational risks. In any event, the reputational risk to the Fund if not providing full support to Benin far outweighs the identified risks, especially considering the authorities' continued commitment to reform.

37. Safeguards assessment. The 2023 update assessment of the BCEAO found that the institution continues to have a robust control environment with strong governance arrangements. All recommendations from the 2018 safeguards assessment have been implemented. Financial reporting and external audit arrangements remain in line with international practices.

38. Capacity development and collaboration with other partners. Fund staff coordinated closely with the World Bank, ensuring that the CCDR baseline model assumptions are aligned with the EFF/ECF macroeconomic framework and will continue to hold discussions with development partners to foster synergy. The WB has prepared an assessment letter on the authorities' climate policies. The mission has tapped expertise from the Global Center on Adaptation (GCA) in selected areas. As part of the MTRS, the authorities have identified areas for further support to facilitate implementation of the strategy, particularly to develop customs' administration capacity. The upcoming IMF technical assistance will support fuel subsidy reform and climate-informed maintenance methodologies (RM2). The IMF would also support the authorities in developing the climate information architecture as well as on the design of a taxonomy framework and a climate data collection and dissemination mechanism (RM15). Other donors (World Bank, Swiss Cooperation on agricultural insurance) also stand ready to support the reform agenda under the RSF.

STAFF APPRAISAL

39. The Beninese authorities have maintained steadfast reform implementation in challenging times; they are now confronted with a new set of challenges. One the one hand, the Niger border closure amidst regional sanctions following a coup in that country is disrupting transit trade. On the other hand, while ultimately a positive development for Benin, the phase-out of fuel subsidies by the new administration in Nigeria is increasing the cost of transport and causing a loss of income for the segment of the Beninese population whose traditional source of income has been the smuggling of cheap gasoline from Nigeria. These recent shocks are compounding pre-existing challenges related to climate change and regional security threats. The authorities should remain vigilant vis-à-vis the socio-economic and financial fallout from those shocks.

40. Maintaining the momentum in tax collection and spending reprioritization will be critical to supporting fiscal consolidation toward the authorities' objective to converge to the WAEMU regional fiscal norm of 3 percent of GDP by 2025. This path of fiscal adjustment is also consistent with preserving debt sustainability, with Benin currently at a moderate risk of external debt distress (and the external position moderately weaker than the level implied by medium term fundamentals and desirable policies). A high-quality composition of fiscal adjustment that preserves priority social spending will be important to ensuring consolidation does not undermine growth and social cohesion. Maintaining a prudent borrowing strategy and ensuring a well-balanced financing mix between external and domestic financing will also be important for fiscal sustainability and mitigation of rollover risks.

41. Careful contingency planning is critical, especially at this juncture of heightened uncertainty. Considering the uncertainty over the duration of the Niger border closure, the authorities should adopt a phased approach to their public investment program to maintain flexibility in budget execution. They should also stand ready to implement new (less distortionary) taxes should program targets come under pressure.

42. The authorities should move swiftly with the operationalization of the recently developed Medium-Term Revenue Strategy (MTRS) to improve the efficiency of the tax system, expand the tax base and help meet Benin's large development needs over time. The strategy lays out the broad contours of tax policy and revenue administration reforms. The authorities should move swiftly with its operationalization, accounting for synergy between tax and customs and securing technical support where needed.

43. Accelerating the operationalization of the social registry will facilitate targeting, particularly as social programs are being scaled up. This will also help compensate vulnerable households in the fiscal adjustment process, including as fuel subsidies are phased out. Enhancing the shock-responsiveness of Benin's social safety nets by supporting the development of a climate-proof social registry would help channel support to the vulnerable when a natural disaster hits. Effectively establishing PNASI as a fully government-managed school feeding program will require timely parliamentary approval of the law adopted by the council of ministers in April.

44. Sustaining the ongoing reform drive to enhance the rule of law and the anticorruption framework will solidify the institutional foundations of inclusive private sector-led growth. Public consultation on the draft action plan for implementing recommendations from the IMF governance diagnostic would foster buy-in and accountability. Ongoing efforts to address deficiencies in the AML/CFT framework should continue, with particular focus on mitigating money laundering risks in the real estate sector, including through the development of a legal framework for the collection, verification, and publication of transferees' beneficial ownership (BO) information for land transfers. Enhancing transparency and the business climate will solidify the institutional foundations of private sector-led growth that benefits all Benineses.

45. Remaining vigilant vis-à-vis financial sector risks and promoting financial inclusion will support sustainable growth. The authorities should remain vigilant vis-à-vis the impact of

Niger border closure on the banking system. Efforts to bring the under-capitalized banks in conformity with prudential norms should be maintained.

46. Steadfast implementation of the authorities' climate change agenda will be important for mitigating long-term risks to balance of payment stability and enhancing the populations' resilience to climate shocks in the near term. Addressing key structural challenges related to climate change should be a priority, including resilient infrastructure and agriculture, supported by initiatives to mobilize private climate finance. In addition, the authorities should seek to support mitigation efforts by implementing a comprehensive fuel subsidy reform—while protecting the most vulnerable—and removing obstacles to renewable energy, including by getting electricity tariffs right.

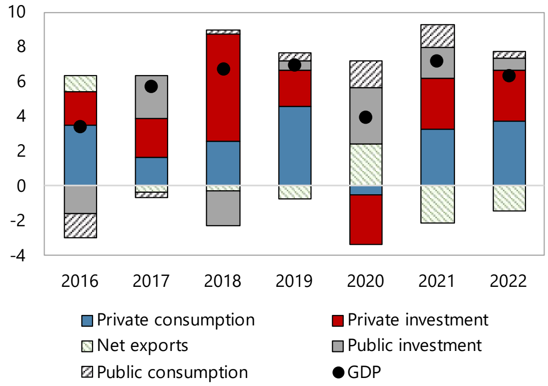
47. Coordination among entities involved in the authorities' ambitious climate agenda will be essential. Benin's far-reaching climate change measures cut across several ministries and agencies, requiring close collaboration among them for mainstreaming climate change in policymaking as envisaged by the government.

48. Given the continued strong program performance and commitment to reforms, staff recommends the completion of the Third Review under the EFF and ECF arrangements and supports the request for a new 24-month RSF to support the authorities' ambitious climate agenda and mitigate BOP stability risks.

Figure 1. Benin: Recent Developments, 2015-22

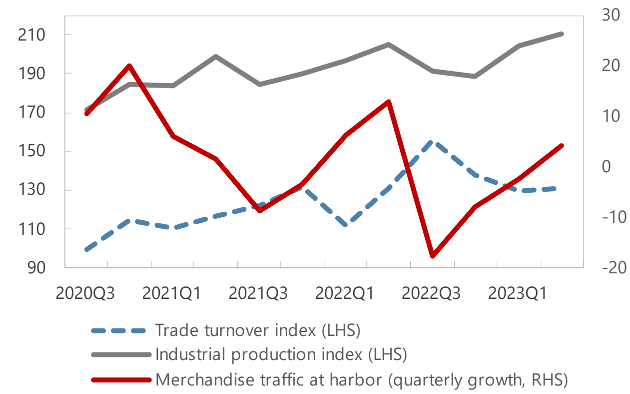
A ramp-up in public investment helped offset the collapse in private demand in 2020, while 2021 and 2022 saw a return of private consumption and investment.

Decomposition of Growth
(percent)



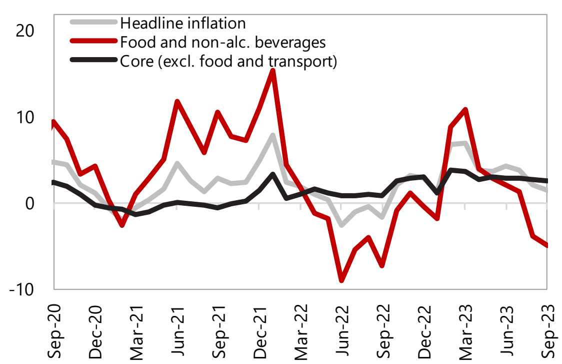
Trade and industrial production turnover indices have performed strongly, while growth of merchandise traffic at the harbor slowed down in 2023.

Economic Activity
(Indices with base 2015=100 and quarterly growth rate)



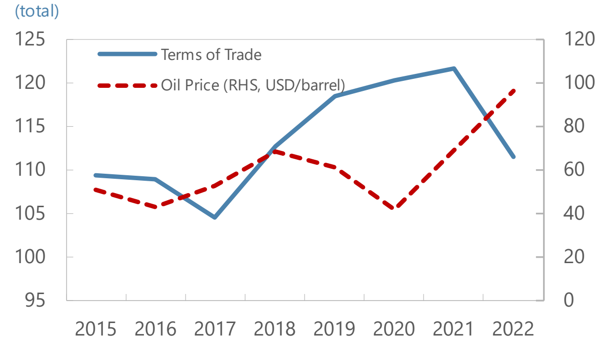
After picking up markedly early this year, food prices have sharply declined partially offsetting the impact of soaring transport costs on overall inflation.

Inflation
(CPI, percentage change, year-on-year)



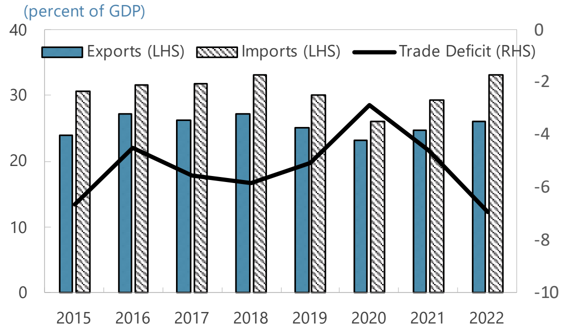
The terms of trade sharply deteriorated in 2022 owing to higher oil prices...

Terms of Trade
(total)

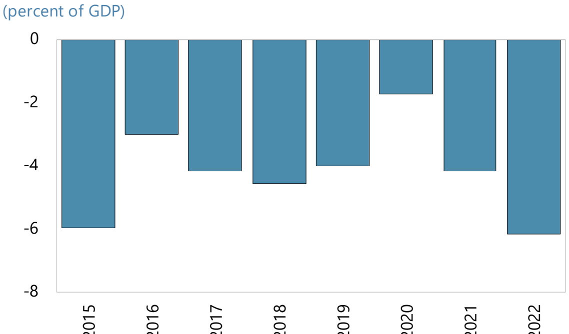


... leading to costly imports that offset higher cotton proceeds and contributing to widening the current account deficit .

Trade Balance, Goods and Services
(percent of GDP)



Current Account Balance
(percent of GDP)

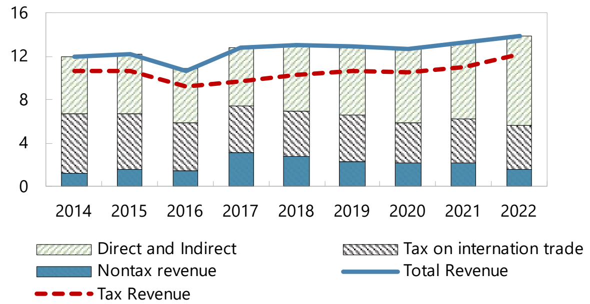


Sources: Beninese authorities, BCEAO, and IMF staff calculations.

Figure 2. Benin: Fiscal Developments, 2014-22

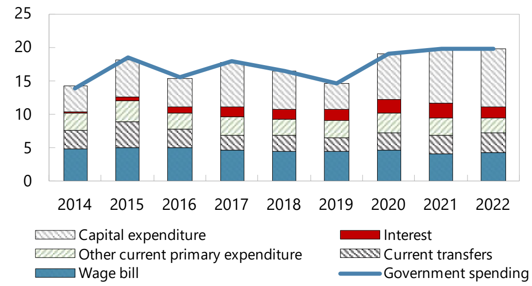
Tax revenue continued its upward trajectory after a decrease in 2020 which was partially induced by lower trade taxes as a result of the Nigeria border closure.

Revenue
(percent of GDP)



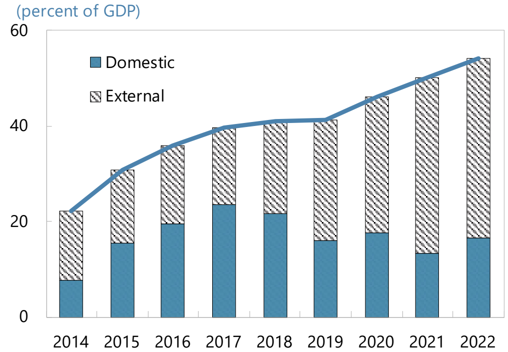
Capital expenditures increased to close the country's infrastructure gap, while a minimum wage increase is reflected in the higher wage bill.

Expenditure
(percent of GDP)



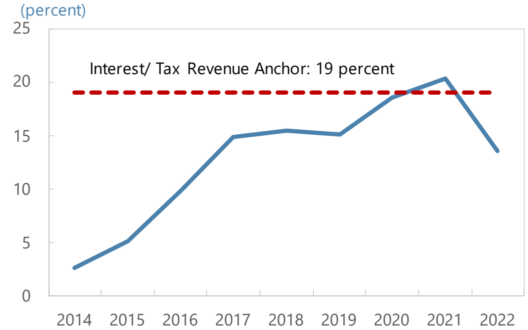
Total government debt is up, driven by lower nominal GDP ...

Total Government Debt
(percent of GDP)



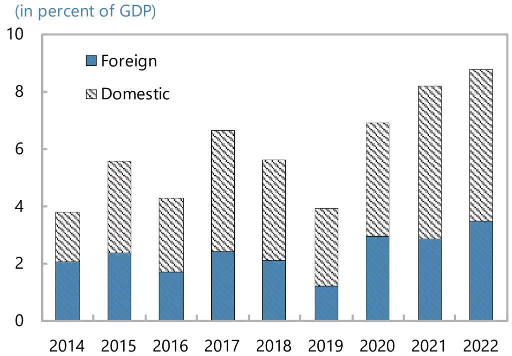
... but the interest-to-tax revenue ratio declined, falling below the program anchor.

Interest to Tax Revenue Ratio
(percent)



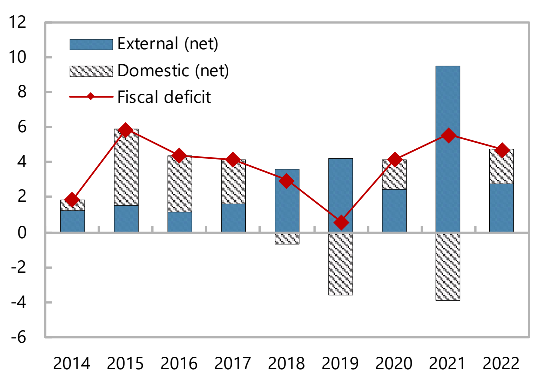
The increase in capital expenditure in 2022 was mostly domestically financed ...

Capital Expenditure by Financing Source
(in percent of GDP)



... while the deficit, which is projected to come down, continued to be mainly externally financed.

Financing of the Fiscal Deficit
(in percent of GDP)

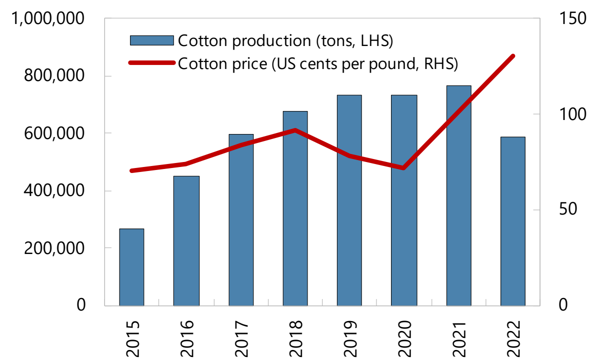


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin: Real and External Sector Developments, 2015-23

Cotton production dropped sharply in 2022 due to weather-related shocks, after having nearly tripled in volume since 2015...

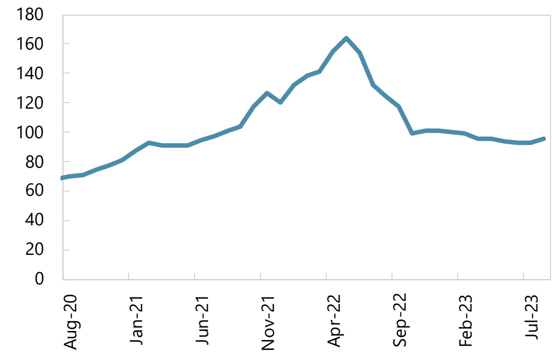
Cotton Production and Price



... while the price of cotton, on average higher in 2022 than in 2021, has declined from its recent peak.

International Cotton Prices

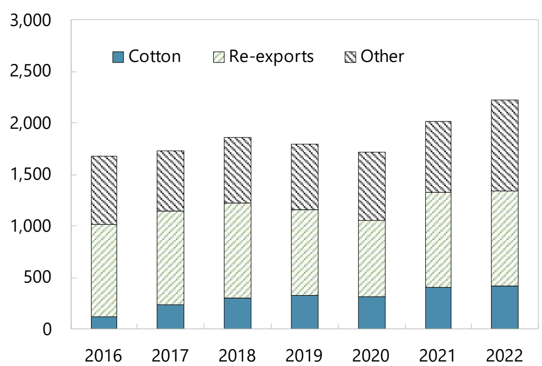
(US cents per pound)



Cotton export receipts increased in 2022 (based on strong production of cotton grains in 2021), contributing to overall higher exports.

Composition of Exports

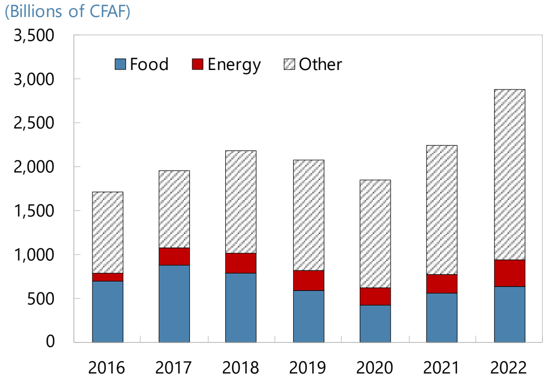
(Billions of CFAF)



Imports also increased in 2022, partly reflecting food and energy prices pressures...

Composition of Imports

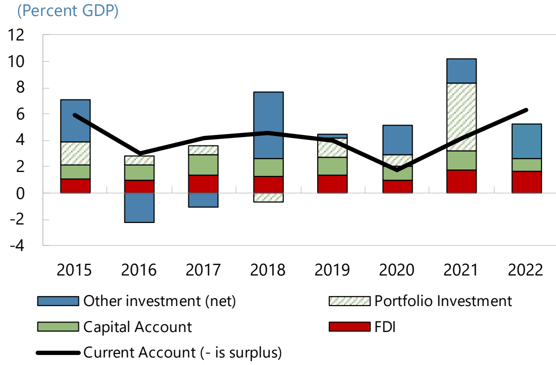
(Billions of CFAF)



... and widening the current account deficit.

Current Account Deficit and Financing Sources

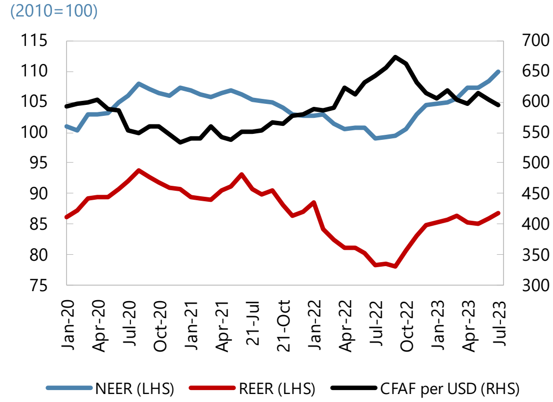
(Percent GDP)



The CFA franc appreciated against the US dollar since mid-2022, while some of the recent effective exchange rate appreciation reverted.

Exchange Rates

(2010=100)

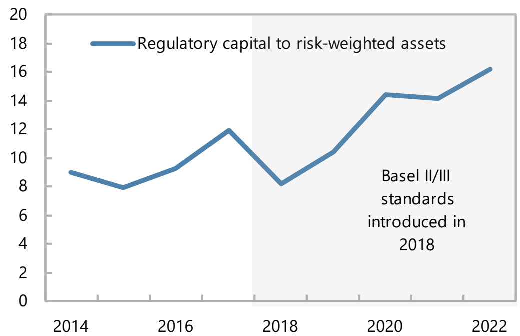


Sources: Beninese authorities, WEO, Bloomberg, and IMF staff calculations. Some data for 2022 is preliminary.

Figure 4. Benin: Financial Sector Developments, 2014-22

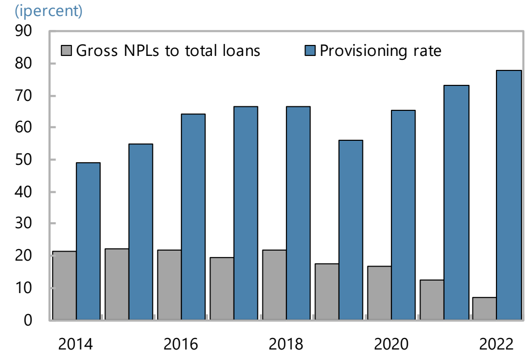
The banking system remains well capitalized overall, although one bank remains undercapitalized.

Capital Adequacy Ratio
(percent of risk-weighted assets)



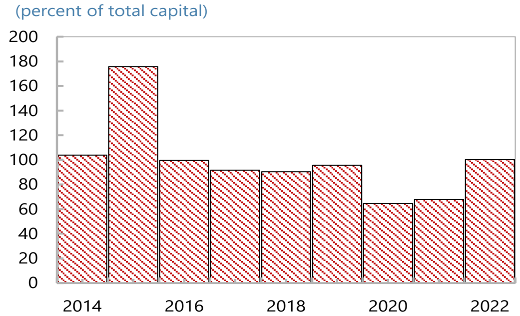
The quality of the credit portfolio continues to improve, with still high provisioning.

Gross NPLs to Total Loans and Provisioning Rate
(ipercent)



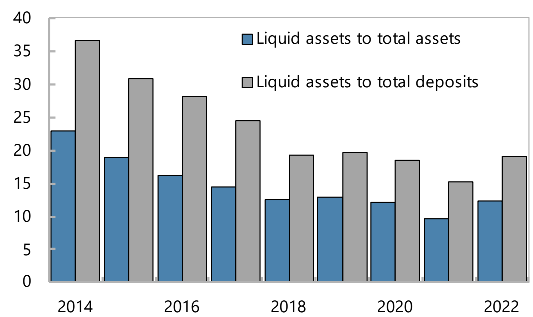
The sector's lending concentration remained elevated and increased in 2022 ...

Concentration: Credit to the Five Largest Borrowers
(percent of total capital)



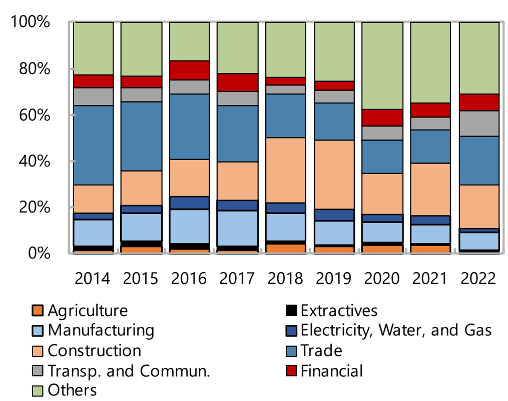
... while liquidity ratios stabilized in 2022 after a decline in recent years.

Liquid Assets as a Share of Total Assets/Deposits
(percent)



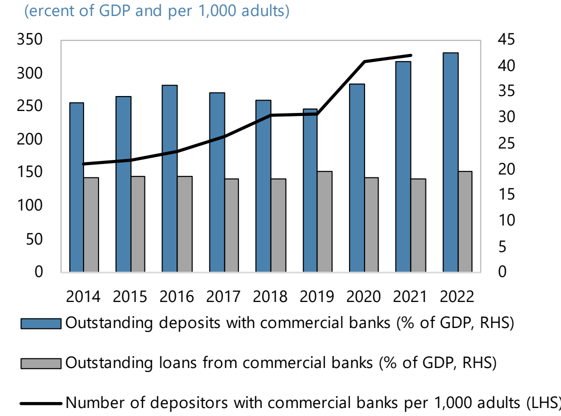
Lending to the trade sector continued to expand in 2022, while lending to the construction sector has remained at its 2021 level.

Credit Provided, by Sector
(percent)



There were notable improvements in access to and use of banking sector services in recent years.

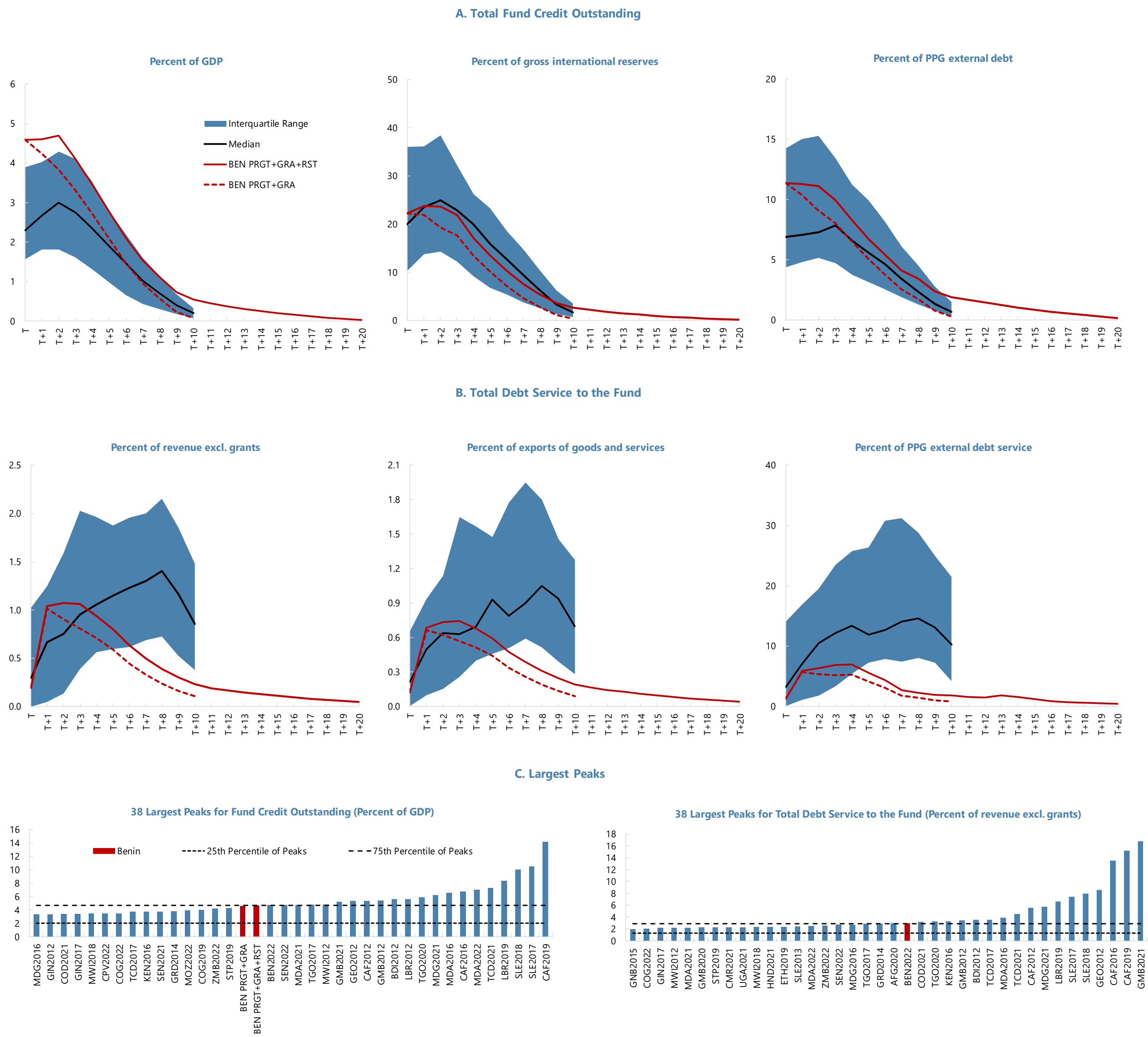
Commercial Bank Deposit and Loan Composition
(ercent of GDP and per 1,000 adults)



Sources: Beninese authorities, BCEAO, and IMF staff calculations.

Figure 5. Benin: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In percent of the indicated variable)



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.

2) Red lines/bars indicate the CtR indicator for the arrangement of interest.

3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.

4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.

5) Comparator series is for PRGT arrangements only and runs up to T+10.

6) Debt service obligations to the Fund reflect prospective payments, including for the current year.

7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Selected Economic and Financial Indicators, 2019-28

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028
			Est.	Second Review	Est.	Second Review	Proj.	Projections				
				(annual percent change)								
National Income and Prices												
Real GDP per capita	3.8	1.0	4.2	3.3	3.3	3.1	2.7	3.1	3.0	3.1	3.1	3.1
Real GDP	6.9	3.8	7.2	6.3	6.3	6.0	5.6	6.0	5.9	6.0	5.9	6.0
Nominal GDP	6.5	6.8	8.9	10.7	10.7	9.6	9.2	9.0	8.1	8.1	8.1	8.1
GDP deflator	-0.3	2.9	1.6	4.1	4.1	3.3	3.3	2.8	2.0	2.0	2.0	2.0
Consumer price index (average)	-0.9	3.0	1.7	1.4	1.4	3.5	3.7	3.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	0.3	1.2	5.0	2.9	2.9	3.5	3.7	3.0	2.0	2.0	2.0	2.0
External Sector												
Terms of trade (minus = deterioration)	5.1	1.5	1.1	-7.6	-8.4	-2.2	-1.5	0.1	0.1	0.1	0.1	0.1
Real effective exchange rate (minus = deterioration)	-3.1	3.7	-0.8	-9.6	-8.7	...	...	...	...	...	...	...
Money and Credit												
Credit to the private sector	11.9	-5.7	9.2	21.4	21.4	9.0	9.0	11.0	...	...	...	...
Broad money (M2)	6.0	17.3	16.7	13.0	13.0	9.6	9.2	9.0	...	...	...	...
				(percent of GDP, unless otherwise indicated)								
Central Government Finance												
Total revenue	12.9	12.7	13.2	13.8	13.8	14.0	14.0	14.5	15.0	15.4	15.9	16.3
of which: Tax revenue [1]	*10.6*	*10.5*	*11.0*	*12.2*	*12.2*	*12.7*	*12.7*	*13.2*	*13.7*	*14.1*	*14.5*	*14.9*
Grants	1.2	1.7	0.9	0.5	0.5	0.6	0.8	0.7	0.7	0.6	0.6	0.6
Total expenditure and net lending	14.6	19.1	19.9	19.8	19.8	19.0	19.3	18.9	18.6	18.9	19.4	19.8
Overall balance (commitment basis, including grants)	-0.5	-4.7	-5.7	-5.5	-5.5	-4.3	-4.5	-3.7	-2.9	-2.9	-2.9	-2.9
Overall balance (cash basis, including grants)	-0.6	-4.2	-5.6	-4.7	-4.7	-5.0	-5.1	-3.7	-2.9	-2.9	-2.9	-2.9
Domestic financing, net	-3.6	1.7	-3.9	2.0	2.0	2.9	0.9	1.1	-0.6	0.6	-1.0	0.3
External financing, net	4.2	2.4	9.5	2.7	2.7	2.1	4.2	2.6	3.5	2.3	3.9	2.6
External Sector												
Balance of goods and services	-5.0	-2.8	-4.4	-6.4	-6.3	-6.2	-6.0	-5.8	-5.3	-5.2	-4.8	-4.7
Exports of goods and services	24.9	22.4	23.5	24.9	23.9	23.1	22.1	22.1	21.9	21.8	21.8	21.9
Imports of goods and services	-29.9	-25.1	-27.8	-31.4	-30.2	-29.3	-28.1	-27.9	-27.2	-27.0	-26.6	-26.6
Current account balance, including official transfers	-4.0	-1.7	-4.2	-6.3	-6.2	-5.9	-5.8	-5.4	-4.9	-4.8	-4.3	-4.1
Overall balance of payments	0.5	3.4	6.1	-1.2	0.1	-0.9	1.3	-0.3	1.2	0.2	2.4	1.3
Public Debt (End Period)												
Total public debt	41.2	46.1	50.3	54.2	54.2	53.8	53.8	53.1	52.0	51.1	50.3	49.5
External public debt	25.3	28.4	36.8	37.6	37.6	38.1	40.3	40.8	42.2	41.3	41.8	41.2
Domestic public debt	16.0	17.7	13.5	16.6	16.6	15.7	13.5	12.2	9.8	9.8	8.5	8.3
Memorandum Items												
Nominal GDP (CFAF billions)	8,432	9,009	9,810	10,855	10,855	11,891	11,852	12,922	13,963	15,095	16,312	17,629
Nominal GDP (US$ billions)	14.4	15.7	17.7	17.4	17.4	19.3	19.7	21.5	23.4	25.3	27.2	29.3
Nominal GDP per capita (US$)	1,171.0	1,239.7	1,361.8	1,304.7	1,304.7	1,400.3	1,430.6	1,524.8	1,607.7	1,693.4	1,773.8	1,857.2
US$ exchange rate (average)	585.9	574.8	554.2	622.4	622.4	617.2	602.7	599.7	597.7	596.7	598.9	601.3
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	101.2	130.1	130.1	94.4	95.0	91.8	87.7	88.0	88.0	88.0
International price of oil (U.S. dollars a barrel)	61.4	41.8	69.2	96.4	96.4	73.1	80.5	79.9	76.0	72.7	69.9	67.5

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

[1] Projections from 2022 onward reflect reclassification of taxes on the use or permission to use goods or to carry out activities as tax revenues (71 billion in 2022) to align with WAEMU/GFS practices.

Table 2. Benin: Consolidated Central Government Operations, 2019-28[1]

(Billions of CFA Francs)

	2019	2020	2021	2022		2023		2024		2025	2026	2027	2028
				Second Review	Est.	Second Review	Proj.	Second Review	Proj.	Projections			
Total Revenue and Grants	**1,185.7**	**1,296.3**	**1,387.7**	**1,553.2**	**1,553.2**	**1,742.3**	**1,761.9**	**1,949.2**	**1,965.4**	**2,195.5**	**2,416.6**	**2,693.0**	**2,981.0**
Total revenue	1,088.0	1,142.1	1,295.7	1,498.6	1,498.6	1,666.6	1,661.2	1,859.5	1,875.7	2,096.6	2,319.5	2,588.0	2,867.6
Tax revenue [2]	893.3	947.8	1,082.3	1,320.7	1,320.7	1,512.3	1,507.4	1,692.7	1,708.0	1,915.4	2,123.5	2,360.0	2,621.1
Tax on international trade	358.0	331.5	397.4	429.8	429.8	532.8	531.0	592.0	595.0	670.9	748.0	832.7	926.4
Direct and indirect taxes	535.3	616.3	684.9	890.9	890.9	979.6	976.4	1,100.7	1,112.9	1,244.5	1,375.6	1,527.3	1,694.7
Nontax revenue [2]	194.8	194.2	213.4	177.8	177.8	154.3	153.8	166.8	167.7	181.2	195.9	228.0	246.5
Grants	97.7	154.2	92.0	54.6	54.6	75.7	100.7	89.7	89.7	98.9	97.1	104.9	113.4
Project grants	66.8	46.9	54.6	54.6	54.6	61.7	90.7	66.7	66.7	78.9	75.5	81.6	88.1
Budgetary grants	30.8	107.3	37.4	0.0	0.0	14.0	10.0	23.0	23.0	20.0	21.6	23.4	25.3
Total Expenditure and Net Lending	**1,227.3**	**1,719.9**	**1,949.4**	**2,149.4**	**2,149.4**	**2,253.6**	**2,289.8**	**2,424.9**	**2,443.5**	**2,600.5**	**2,854.3**	**3,166.0**	**3,492.2**
Current expenditure	900.8	1,095.6	1,145.1	1,198.1	1,198.1	1,338.5	1,341.1	1,461.5	1,462.4	1,580.9	1,716.1	1,871.7	2,027.8
Current primary expenditure	766.2	919.4	925.2	1,019.5	1,019.5	1,140.9	1,143.5	1,250.9	1,257.4	1,369.1	1,499.0	1,640.3	1,783.3
Wage bill [3]	369.7	416.5	407.8	458.5	458.5	561.8	560.0	617.0	620.2	670.2	709.5	766.7	828.6
Pensions and scholarships	90.5	92.9	90.5	92.9	92.9	107.7	107.4	122.9	123.5	133.4	159.4	172.2	186.1
Current transfers	180.9	233.0	259.2	320.6	320.6	321.1	317.3	347.1	348.9	384.0	430.2	481.2	521.8
Expenditure on goods and services	125.1	176.9	167.6	147.4	147.4	150.3	158.9	163.9	164.8	181.5	200.0	220.2	246.8
Interest	134.6	176.3	219.9	178.7	178.7	197.6	197.7	210.6	205.0	211.7	217.0	231.4	244.5
Domestic debt	106.8	105.7	153.1	84.1	84.1	97.5	97.0	103.9	85.9	86.3	75.3	83.4	79.0
External debt	27.8	70.6	66.8	94.5	94.5	100.1	100.7	106.7	119.1	125.4	141.7	148.1	165.5
Capital expenditure	330.4	622.4	802.6	954.9	954.9	915.2	948.7	963.3	981.1	1,019.6	1,138.3	1,294.3	1,464.4
Financed by domestic resources	228.3	356.4	519.0	577.9	577.9	538.5	543.0	511.0	528.7	535.8	609.9	723.4	847.3
Financed by external resources [4]	102.1	266.0	283.7	377.0	377.0	376.7	405.7	452.4	452.4	483.8	528.3	570.9	617.0
Net lending	-3.9	1.8	1.7	-3.6	-3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-41.6**	**-423.6**	**-561.7**	**-596.2**	**-596.2**	**-511.3**	**-527.9**	**-475.6**	**-478.1**	**-404.9**	**-437.8**	**-473.0**	**-511.2**
Primary balance [5]	-4.6	-401.5	-433.8	-472.2	-472.2	-389.5	-430.9	-354.7	-362.8	-292.1	-317.8	-346.5	-380.1
Basic primary balance [6]	93.5	-133.7	-148.5	-98.8	-98.8	-12.8	-25.2	97.7	89.6	191.7	210.5	224.4	236.9
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: net change in arrears stock	*19.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	0.0
Float	-7.3	48.7	15.3	82.2	82.2	-82.2	-82.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-48.9**	**-374.9**	**-546.4**	**-514.0**	**-514.0**	**-593.6**	**-610.1**	**-475.6**	**-478.1**	**-404.9**	**-437.8**	**-473.0**	**-511.2**
Financing	**48.9**	**374.9**	**546.4**	**514.0**	**514.0**	**593.6**	**610.1**	**475.6**	**478.1**	**404.9**	**437.8**	**473.0**	**511.2**
Domestic financing	-302.9	156.4	-380.8	216.1	216.1	339.4	108.1	163.2	148.6	-88.7	89.6	-164.1	60.9
Bank financing	7.7	259.4	-123.4	78.1	78.1	223.3	-7.5	37.7	22.5	-225.0	-23.6	-286.5	-71.3
Net use of IMF resources	14.5	168.1	94.2	176.2	176.2	116.7	114.5	6.1	53.7	58.2	-36.9	-59.0	-79.0
Disbursements	*25.7*	*171.3*	*94.2*	*181.6*	*181.6*	*125.4*	*123.0*	*51.7*	*97.9*	*114.2*	*0.0*	*0.0*	*0.0*
o/w RSF	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*47.8*	*71.8*	*0.0*	*0.0*	*0.0*
Repayments	*-11.2*	*-3.2*	*0.0*	*-5.4*	*-5.4*	*-8.7*	*-8.6*	*-45.7*	*-44.3*	*-56.0*	*-36.9*	*-59.0*	*-79.0*
Other [7]	-6.8	91.2	-217.6	-98.1	-98.1	106.6	-122.0	31.7	-31.2	-283.1	13.3	-227.5	7.7
Nonbank and regional financing [8]	-310.6	-103.0	-257.4	138.0	138.0	116.0	115.6	125.4	126.1	136.2	113.2	122.3	132.2
External financing	351.9	218.5	927.3	297.9	297.9	254.2	502.0	312.5	329.5	493.7	348.2	637.2	450.3
Project financing [4]	35.2	219.1	229.0	322.3	322.3	315.0	315.0	385.7	385.7	404.9	452.8	489.4	528.9
Budgetary assistance	33.3	49.9	28.2	96.1	96.1	100.7	118.9	93.3	110.2	54.6	75.5	81.6	88.1
SDG Loan	0.0	0.0	0.0	0.0	0.0	0.0	229.6	0.0	0.0	0.0	0.0	0.0	0.0
SDG/Eurobond issuance	325.0	0.0	983.9	0.0	0.0	0.0	0.0	0.0	0.0	209.2	0.0	209.2	0.0
Amortization due	-41.7	-50.5	-313.9	-120.5	-120.5	-161.4	-161.4	-166.5	-166.4	-175.1	-180.2	-142.9	-166.7
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8,432	9,009	9,810	10,855	10,855	11,891	11,852	12,855	12,922	13,963	15,095	16,312	17,629

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

[1] Consolidated central government includes government entities whose operations are include in the table of government financial operations (TOFE). Does not include any local governments, the central back, or any other public or government-owned entity that has autonomous legal status.

[2] Projections from 2022 onward reflect reclassification of taxes on the use or permission to use good or to carry out activities as tax revenues (71 billion in 2022) to align with WAEMU/GFS practices.

[3] 2020-27 includes wages of wages of trainee "aspirant" employees previously reflected in goods and services.

[4] Projections from 2022 onward include financing from BOAD.

[5] Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.

[6] Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

[7] Includes financing by Beninese banks.

[8] Includes financing by regional commercial banks.

Table 3. Benin: Consolidated Central Government Operations, 2019-28[1]
(Percent of GDP)

	2019	2020	2021	2022		2023		2024		2025	2026	2027	2028
				Second Review	Est.	Second Review	Proj.	Second Review	Proj.	Projections			
Total Revenue and Grants	**14.1**	**14.4**	**14.1**	**14.3**	**14.3**	**14.7**	**14.9**	**15.2**	**15.2**	**15.7**	**16.0**	**16.5**	**16.9**
Total revenue	12.9	12.7	13.2	13.8	13.8	14.0	14.0	14.5	14.5	15.0	15.4	15.9	16.3
Tax revenue [2]	10.6	10.5	11.0	12.2	12.2	12.7	12.7	13.2	13.2	13.7	14.1	14.5	14.9
Tax on international trade	4.2	3.7	4.1	4.0	4.0	4.5	4.5	4.6	4.6	4.8	5.0	5.1	5.3
Direct and indirect taxes	6.3	6.8	7.0	8.2	8.2	8.2	8.2	8.6	8.6	8.9	9.1	9.4	9.6
Nontax revenue [2]	2.3	2.2	2.2	1.6	1.6	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Grants	1.2	1.7	0.9	0.5	0.5	0.6	0.8	0.7	0.7	0.7	0.6	0.6	0.6
Project grants	0.8	0.5	0.6	0.5	0.5	0.5	0.8	0.5	0.5	0.6	0.5	0.5	0.5
Budgetary grants	0.4	1.2	0.4	0.0	0.0	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Total Expenditure and Net Lending	**14.6**	**19.1**	**19.9**	**19.8**	**19.8**	**19.0**	**19.3**	**18.9**	**18.9**	**18.6**	**18.9**	**19.4**	**19.8**
Current expenditure	10.7	12.2	11.7	11.0	11.0	11.3	11.3	11.4	11.3	11.3	11.4	11.5	11.5
Current primary expenditure	9.1	10.2	9.4	9.4	9.4	9.6	9.6	9.7	9.7	9.8	9.9	10.1	10.1
Wage bill [3]	4.4	4.6	4.2	4.2	4.2	4.7	4.7	4.8	4.8	4.8	4.7	4.7	4.7
Pensions and scholarships	1.1	1.0	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1
Current transfers	2.1	2.6	2.6	3.0	3.0	2.7	2.7	2.7	2.7	2.8	2.9	3.0	3.0
Expenditure on goods and services	1.5	2.0	1.7	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Interest	1.6	2.0	2.2	1.6	1.6	1.7	1.7	1.6	1.6	1.5	1.4	1.4	1.4
Domestic debt	1.3	1.2	1.6	0.8	0.8	0.8	0.8	0.8	0.7	0.6	0.5	0.5	0.4
External debt	0.3	0.8	0.7	0.9	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Capital expenditure	3.9	6.9	8.2	8.8	8.8	7.7	8.0	7.5	7.6	7.3	7.5	7.9	8.3
Financed by domestic resources	2.7	4.0	5.3	5.3	5.3	4.5	4.6	4.0	4.1	3.8	4.0	4.4	4.8
Financed by external resources [4]	1.2	3.0	2.9	3.5	3.5	3.2	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-0.5**	**-4.7**	**-5.7**	**-5.5**	**-5.5**	**-4.3**	**-4.5**	**-3.7**	**-3.7**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Primary balance [5]	-0.1	-4.5	-4.4	-4.4	-4.4	-3.3	-3.6	-2.8	-2.8	-2.1	-2.1	-2.1	-2.2
Basic primary balance [6]	1.1	-1.5	-1.5	-0.9	-0.9	-0.1	-0.2	0.8	0.7	1.4	1.4	1.4	1.3
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: net change in arrears stock	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	0.0
Float	-0.1	0.5	0.2	0.8	0.8	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-0.6**	**-4.2**	**-5.6**	**-4.7**	**-4.7**	**-5.0**	**-5.1**	**-3.7**	**-3.7**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Financing	**0.6**	**4.2**	**5.6**	**4.7**	**4.7**	**5.0**	**5.1**	**3.7**	**3.7**	**2.9**	**2.9**	**2.9**	**2.9**
Domestic financing	-3.6	1.7	-3.9	2.0	2.0	2.9	0.9	1.3	1.1	-0.6	0.6	-1.0	0.3
Bank financing	0.1	2.9	-1.3	0.7	0.7	1.9	-0.1	0.3	0.2	-1.6	-0.2	-1.8	-0.4
Net use of IMF resources	0.2	1.9	1.0	1.6	1.6	1.0	1.0	0.0	0.4	0.4	-0.2	-0.4	-0.4
Disbursements	0.3	1.9	1.0	1.7	1.7	1.1	1.0	0.4	0.8	0.8	0.0	0.0	0.0
o/w RSF	0.0	0.0	0.0	2.7	0.0	2.1	0.0	0.0	0.4	0.5	0.0	0.0	0.0
Repayments	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.4	-0.3	-0.4	-0.2	-0.4	-0.4
Other [7]	-0.1	1.0	-2.2	-0.9	-0.9	0.9	-1.0	0.2	-0.2	-2.0	0.1	-1.4	0.0
Nonbank and regional financing [8]	-3.7	-1.1	-2.6	1.3	1.3	1.0	1.0	1.0	1.0	1.0	0.7	0.8	0.7
External financing	4.2	2.4	9.5	2.7	2.7	2.1	4.2	2.4	2.6	3.5	2.3	3.9	2.6
Project financing [4]	0.4	2.4	2.3	3.0	3.0	2.6	2.7	3.0	3.0	2.9	3.0	3.0	3.0
Budgetary assistance	0.4	0.6	0.3	0.9	0.9	0.8	1.0	0.7	0.9	0.4	0.5	0.5	0.5
SDG Loan	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0
SDG/Eurobond issuance	3.9	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0	1.3	0.0
Amortization due	-0.5	-0.6	-3.2	-1.1	-1.1	-1.4	-1.4	-1.3	-1.3	-1.3	-1.2	-0.9	-0.9
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8,432	9,009	9,810	10,855	10,855	11,891	11,852	12,855	12,922	13,963	15,095	16,312	17,629
Memo Items													
Interest-to-tax revenue ratio (percent)	15	19	20	14	14	13	13	12	12	11	10	10	9
Wage bill to tax ratio (percent)	41	44	38	35	35	37	37	36	36	35	33	32	32

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

[1] Consolidated central government includes government entities whose operations are include in the table of government financial operations (TOFE). Does not include any local governments, the central back, or any other public or government-owned entity that has autonomous legal status.

[2] Projections from 2022 onward reflect reclassification of taxes on the use or permission to use good or to carry out activities as tax revenues (0.7 percent of GDP in 2022).

[3] 2020-27 includes wages of wages of trainee "aspirant" employees previously reflected in goods and services.

[4] Projections from 2022 include financing from BOAD.

[5] Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.

[6] Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

[7] Includes financing by Beninese banks.

[8] Includes financing by regional commercial banks.

Table 4. Benin: Balance of Payments, 2019-28[1]
(Billions of CFA Francs)

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028
			Est.	Second Rev.	Est.	Second Rev.	Proj.	Projections				
Current account balance	**-337.3**	**-157.3**	**-407.4**	**-680.6**	**-668.7**	**-697.2**	**-684.9**	**-697.9**	**-690.6**	**-722.6**	**-696.9**	**-719.7**
Current Account Balance (Excl. Budget Support Grants)	-368.1	-264.6	-444.8	-680.6	-668.7	-711.2	-694.9	-720.9	-710.6	-744.2	-720.3	-744.9
Trade balance[1]	-260.4	-89.7	-195.4	-442.2	-441.2	-453.7	-446.3	-454.4	-426.0	-440.3	-406.4	-429.6
Exports, f.o.b.[1]	1,790.9	1,720.5	2,019.9	2,389.5	2,226.0	2,399.3	2,218.9	2,422.8	2,588.3	2,789.1	3,014.2	3,263.7
Of which: re-exports	*841.3*	*739.1*	*925.1*	*927.2*	*918.0*	*1,041.7*	*1,059.0*	*1,200.8*	*1,314.8*	*1,443.9*	*1,586.5*	*1,741.3*
Of which: cotton	*325.5*	*319.3*	*404.7*	*498.9*	*421.6*	*361.4*	*298.7*	*307.9*	*304.2*	*316.0*	*329.2*	*343.1*
Imports, f.o.b.[1]	-2,051.4	-1,810.2	-2,215.4	-2,831.7	-2,667.2	-2,853.1	-2,665.2	-2,877.3	-3,014.2	-3,229.4	-3,420.6	-3,693.3
Of which: fuel	*-223.6*	*-199.4*	*-198.2*	*-298.4*	*-382.9*	*-215.9*	*-299.6*	*-283.9*	*-257.9*	*-236.8*	*-219.2*	*-204.1*
Services (net)	-162.4	-160.5	-232.6	-257.3	-247.0	-281.9	-269.8	-294.1	-317.8	-343.5	-371.2	-401.2
Income (net)	-41.5	-69.7	-105.0	-58.7	-107.6	-66.2	-74.9	-85.6	-95.0	-105.9	-107.9	-101.9
Current transfers (net)	127.1	162.6	125.5	77.6	127.2	104.6	106.0	136.2	148.2	167.1	188.6	213.1
Private transfers	77.6	55.0	76.9	77.6	127.2	90.6	96.0	113.2	128.2	145.5	165.3	187.8
Public transfers	49.4	107.6	48.7	0.0	0.0	14.0	10.0	23.0	20.0	21.6	23.4	25.3
Capital Account Balance	**116.3**	**100.5**	**143.8**	**103.3**	**121.5**	**115.0**	**135.9**	**115.9**	**132.1**	**133.0**	**143.7**	**155.3**
Financial Account Balance (+=Inflow)	**262.6**	**361.8**	**858.2**	**451.9**	**556.8**	**471.3**	**706.7**	**546.8**	**724.4**	**615.5**	**946.8**	**794.1**
Direct investment	112.0	87.6	168.1	178.6	205.2	189.3	197.2	209.1	221.5	256.9	297.8	330.5
Portfolio investment[2]	125.0	76.4	503.8	0.0	147.7	0.0	0.0	0.0	209.2	0.0	209.2	0.0
Medium- and long-term public capital	168.4	324.3	182.5	297.9	297.9	254.2	502.0	329.5	284.5	348.2	428.0	450.3
Project loans	35.2	219.1	229.0	322.3	322.3	315.0	315.0	385.7	404.9	452.8	489.4	528.9
Budgetary assistance loans	33.3	49.9	28.2	96.1	96.1	100.7	118.9	110.2	54.6	75.5	81.6	88.1
SDG Loan	0.0	0.0	0.0	0.0	0.0	0.0	229.6	0.0	0.0	0.0	0.0	0.0
Amortization due	-41.7	-50.5	-313.9	-120.5	-120.5	-161.4	-161.4	-166.4	-175.1	-180.2	-142.9	-166.7
Other Medium- and long-term private capital	-142.7	-126.5	3.9	-24.6	-94.0	27.8	7.5	8.2	9.2	10.4	11.8	13.2
Errors and omissions	3.9	2.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	**45.6**	**306.9**	**597.5**	**-125.5**	**9.7**	**-110.9**	**157.6**	**-35.2**	**165.9**	**25.9**	**393.6**	**229.7**
Financing	**-45.6**	**-306.9**	**-597.5**	**-56.1**	**-9.7**	**-14.5**	**-280.7**	**-15.0**	**-208.3**	**-25.9**	**-393.6**	**-229.7**
Change in gross foreign assets, BCEAO excl. RSF ('-' = Increase)	-31.0	-138.8	-495.5	-61.5	166.5	-23.3	-289.2	-59.2	-264.3	-62.8	-452.5	-308.7
Use of IMF resources, net	-14.5	-168.1	-94.2	5.4	-176.2	8.7	8.6	44.3	56.0	36.9	59.0	79.0
Debt relief[3]	0.0	0.0	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap						125.4	**123.0**	**50.2**	**42.4**	**0.0**	**0.0**	**0.0**
IMF EFF/ECF						125.4	123.0	50.2	42.4			
Residual Gap							**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF RSF							0.0	**47.8**	**71.8**	0.0	0.0	0.0
Change in gross foreign assets, BCEAO incl. RSF ('-' = Increase)							-289.2	**-107.0**	**-336.1**	-62.8	-452.5	-308.7
						(Percent of GDP)						
Current Account Balance	**-4.0**	**-1.7**	**-4.2**	**-6.3**	**-6.2**	**-5.9**	**-5.8**	**-5.4**	**-4.9**	**-4.8**	**-4.3**	**-4.1**
Trade balance of goods[1]	-3.1	-1.0	-2.0	-4.1	-4.1	-3.8	-3.8	-3.5	-3.1	-2.9	-2.5	-2.4
Exports, f.o.b.[1]	*21.2*	*19.1*	*20.6*	*22.0*	*20.5*	*20.2*	*18.7*	*18.7*	*18.5*	*18.5*	*18.5*	*18.5*
Imports, f.o.b.[1]	*-24.3*	*-20.1*	*-22.6*	*-26.1*	*-24.6*	*-24.0*	*-22.5*	*-22.3*	*-21.6*	*-21.4*	*-21.0*	*-21.0*
Services	-1.9	-1.8	-2.4	-2.4	-2.3	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Income	-0.5	-0.8	-1.1	-0.5	-1.0	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.6
Current transfers	1.5	1.8	1.3	0.7	1.2	0.9	0.9	1.1	1.1	1.1	1.2	1.2
Capital account	1.4	1.1	1.5	1.0	1.1	1.0	1.1	0.9	0.9	0.9	0.9	0.9
Financial account	3.1	4.0	8.7	4.2	5.1	4.0	6.0	4.2	5.2	4.1	5.8	4.5
Overall Balance	**0.5**	**3.4**	**6.1**	**-1.2**	**0.1**	**-0.9**	**1.3**	**-0.3**	**1.2**	**0.2**	**2.4**	**1.3**
Memorandum items:												
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	101.2	130.1	130.1	94.4	95.0	91.8	87.7	88.0	88.0	88.0
International price of oil (U.S. dollars a barrel)	61.4	41.8	69.2	96.4	96.4	73.1	80.5	79.9	76.0	72.7	69.9	67.5
Nominal GDP (CFAF billion)	8,432	9,009	9,810	10,855	10,855	11,891	11,852	12,922	13,963	15,095	16,312	17,629

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Includes re-exports and imports for re-export.

[2] 2025 portfolio flows relate to projected Eurobond issuance.

[3] Includes the IMF debt service relief of CFAF 196.86 billion from the five tranches of Catastrophe Containment and Relief Trust (CCRT).

Table 5. Benin: Monetary Survey, 2019-28

	2019	2020	2021	2022		2023	2024	2025	2026	2027	2028
			Est.	Second Rev.	Est.	Projections					
					(CFAF billion)						
Net foreign assets	**1233.1**	**1549.3**	**2131.3**	**2152.8**	**2152.8**	**2442.0**	**2501.3**	**2765.6**	**2828.4**	**3280.9**	**3589.7**
Central Bank of West African States (BCEAO)	314.4	269.8	138.2	-165.6	-165.6	0.6	9.6	231.5	294.3	746.9	1055.6
Banks	918.7	1279.5	1993.1	2318.4	2318.4	2441.5	2491.6	2534.1	2534.1	2534.1	2534.1
Net domestic assets	**1108.9**	**1198.6**	**1075.3**	**1471.5**	**1471.5**	**1515.4**	**1813.2**	**1896.5**	**2211.7**	**2165.6**	**2296.6**
Domestic credit	1449.9	1720.9	1712.8	2126.2	2126.2	2293.3	2515.8	3036.5	3486.2	3969.5	4491.9
Net claims on central government	-200.6	58.8	-64.6	9.9	9.9	9.9	9.9	9.9	9.9	9.9	9.9
Credit to the nongovernment sector[1]	1650.5	1662.1	1777.4	2116.3	2116.3	2283.4	2505.9	3026.6	3476.3	3959.6	4482.0
Of which: Credit to the private sector	1485.0	1399.7	1528.9	1856.1	1856.1	2023.2	2245.7	2766.4	3216.1	3699.4	4221.8
Other items[2]	341.0	522.3	637.5	654.8	654.8	777.9	702.5	1140.0	1274.4	1804.0	2195.3
Broad money (M2)	**2342.0**	**2747.9**	**3206.5**	**3624.3**	**3624.3**	**3957.5**	**4314.5**	**4662.0**	**5040.1**	**5446.5**	**5886.3**
Currency	569.4	713.7	764.5	868.5	868.5	948.3	1033.9	1117.2	1207.8	1305.2	1410.6
Bank deposits	878.4	1040.5	1393.8	1655.9	1655.9	1808.1	1971.2	2130.0	2302.7	2488.4	2689.3
Other deposits	894.2	993.8	1048.2	1099.9	1099.9	1201.0	1309.4	1414.9	1529.6	1652.9	1786.4
					(Change, in percent of beginning-of-period broad money)						
Net foreign assets	**2.2**	**13.5**	**21.2**	**0.7**	**0.7**	**8.0**	**1.5**	**6.1**	**1.3**	**9.0**	**5.7**
Central Bank of West African States (BCEAO)	-5.0	-1.9	-4.8	-9.5	-9.5	4.6	0.2	5.1	1.3	9.0	5.7
Banks	7.1	15.4	26.0	10.1	10.1	3.4	1.3	1.0	0.0	0.0	0.0
Net domestic assets	**3.9**	**3.8**	**-4.5**	**12.4**	**12.4**	**1.2**	**7.5**	**1.9**	**6.8**	**-0.9**	**2.4**
Domestic credit	-4.6	11.6	-0.3	12.9	12.9	4.6	5.6	12.1	9.6	9.6	9.6
Net claims on central government	-14.4	11.1	-4.5	2.3	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the nongovernment sector	9.9	0.5	4.2	10.6	10.6	4.6	5.6	12.1	9.6	9.6	9.6
Other items	-8.4	7.7	4.2	0.5	0.5	3.4	-1.9	10.1	2.9	10.5	7.2
Broad money (M2)	**6.0**	**17.3**	**16.7**	**13.0**	**13.0**	**9.2**	**9.0**	**8.1**	**8.1**	**8.1**	**8.1**
Currency	2.2	6.2	1.9	3.2	3.2	2.2	2.2	1.9	1.9	1.9	1.9
Bank deposits	2.8	6.9	12.9	8.2	8.2	4.2	4.1	3.7	3.7	3.7	3.7
Other deposits	1.0	4.3	2.0	1.6	1.6	2.8	2.7	2.4	2.5	2.4	2.5
Memorandum items:											
Velocity of broad money	3.7	3.5	3.3	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1
Broad money (percent of GDP)	27.8	30.5	32.7	33.4	33.4	33.4	33.4	33.4	33.4	33.4	33.4
Credit to the private sector (annual percentage change)	11.9	-5.7	9.2	21.4	21.4	9.0	11.0	23.2	16.3	15.0	14.1
Nominal GDP (CFAF billion)	8,432	9,009	9,810	10,855	10,855	11,852	12,922	13,963	15,095	16,312	17,629
Nominal GDP growth (annual percentage change)	6.5	6.8	8.9	10.7	10.7	9.2	9.0	8.1	8.1	8.1	8.1

Sources: BCEAO; IMF staff estimates and projections.

[1] Including credit to the private sector and to other non-financial public sector.

[2] Including deposits excluded from broad money, securities other than shares excluded from broad money, loans, financial derivatives, insurance technical reserves, and shares and other equity.

Table 6. Benin: External Financing Requirements and Sources, 2022-25

	2022	2023	2024	2025	Cumulative 2022-25
			Projections		Projection
		(CFAF billion, unless otherwise indicated)			
1. Gross financing requirements	**980**	**1,137**	**902**	**1,094**	**4,114**
Current account balance (excl. grants)	669	695	721	711	2,795
Debt Amortization (excl. regional market securities/IMF)	121	161	166	175	623
IMF Repurchases/repayments	5	9	44	56	114
Change in NFA (excl. IMF) ("+" = increase)	186	272	-29	152	581
Errors and Omissions	0	0	0	0	0
2. Available financing	**686**	**885**	**719**	**977**	**3,267**
Foreign direct investment (net)	205	197	209	221	833
Other net flows [1]	121	282	57	272	732
of which: Eurobond	*0*	*0*	*0*	*209*	209
Project (official external)	360	406	452	484	1,702
Grants	*55*	*91*	*67*	*79*	291
Loans	*306*	*315*	*386*	*405*	1,411
3. Financing Gap (1-2)	**295**	**252**	**183**	**117**	**847**
Budget support (Multilateral)	96	129	133	75	433
Grants	*0*	*10*	*23*	*20*	*53*
Loans	*96*	*119*	*110*	*55*	*380*
Vaccination Support (WB)	17	*0*	*0*	*0*	*17*
Exceptional Financing	182	123	50	42	397
IMF	182	123	50	42	397
Residual Gap	**0**	**0**	**0**	**0**	**0**
4. IMF RSF Disbursement	0	0	48	72	120

Source: Beninese authorities; IMF staff estimates and projections

[1] Includes portfolio investment, SDG financing, private investment, and capital account (excl grants).

Table 7. Benin: Quantitative Performance Criteria and Indicative Targets, 2023-24[1]

(Billions of CFA Francs)

	March 31, 2023			June 30, 2023				September 30, 2023	December 31, 2023	March 31, 2024	June 30, 2024	September 30, 2024	December 31, 2024
	Indicative target (IT)			Performance Criteria (PC)				IT	PC	IT	PC	IT	IT
	Prog.	Actual	Status	Prog.	Adj	Acutal	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]													
Basic primary balance (floor)[3]	3.8	115.7	Met	-1.6		52.1	Met	-97.6	-13.1	15.7	22.2	-25.6	87.4
Net domestic financing (ceiling)[4]	130	118.3	Met	205	204	-18	Met	372	348	204	258.2	347.7	152.3
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	620	103	Met	620		555	Met	620	620	620	620	620	620
C. Indicative Targets[2]													
Tax revenue (floor)	321.5	361.0	Met	694.5		745.2	Met	1,071.9	1,480.0	392.1	816.6	1,205.9	1,665.3
Priority social expenditure (floor) [6]	16.4	22.1	Met	50.9		55.7	Met	105.9	170.1	24.1	55.5	115.5	185.4

Sources: Beninese authorities; IMF staff estimates and projections.

[1]The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

[3]Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

[4]Includes on-lending from the BCEAO related to the IMF disbursement. If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement.

[5]Annual limit. Contracted debt as of Aug. 30. 2023

[6] Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures.

Table 8. Benin: Financial Stability Indicators, 2016-22

	2016 Dec.	2017 Dec.	2018 [1] Dec.	2019 June	2019 Dec.	2020 June	2020 Dec.	2021 June	2021 Dec.	2022 June	2022 Dec.
Regulatory capital to risk-weighted assets	9.3	11.9	8.2	9.6	10.4	10.0	14.4	13.4	14.2	14.6	16.2
Core capital to risk-weighted assets	7.4	10.2	7.2	8.7	9.7	9.3	13.6	12.6	13.3	13.8	15.2
Provisions to risk-weighted assets	16.0	16.4	12.6	11.1	10.3	11.4	11.3	10.1	8.4	9.3	6.5
Capital to total assets	3.7	4.7	5.1	5.6	5.4	4.7	6.7	6.4	6.4	7.6	6.5
Composition and quality of assets											
Total loans to total assets	39.6	43.5	46.1	47.5	48.5	45.3	42.5	40.9	37.6	40.9	44.4
Concentration: Credit to the 5 largest borrowers to capital	99.6	91.6	90.4	99.6	95.5	94.9	64.6	76.9	67.8	65.0	100.4
Credit by sector [2]											
Agriculture, Forestry, and Fishing	1.9	1.8	4.4	2.6	3.1	3.6	4.0	4.3	3.6	4.3	0.4
Extractive Industries	2.6	1.5	1.2	1.0	0.9	1.4	1.1	1.4	0.8	1.4	1.1
Manufacturing	15.0	15.2	12.2	11.0	10.2	10.5	8.7	7.5	8.2	7.5	7.8
Electricity, Water, and Gas	5.0	4.4	4.3	5.2	5.2	4.8	3.2	4.9	4.0	4.9	1.9
Buildings and Public Works	16.3	17.0	27.9	28.8	30.0	27.7	17.6	20.7	22.4	20.7	18.6
Commerce, Restaurants, and Hotels	28.2	24.1	18.7	18.7	15.9	15.3	14.3	14.4	14.4	14.4	21.0
Transportation and Communication	6.2	5.9	3.9	5.0	5.6	6.3	6.0	6.7	5.7	6.8	11.0
Financial and Business Services	7.9	8.0	3.4	3.3	3.5	5.9	7.2	9.0	6.1	9.0	7.2
Other Services	16.7	22.1	23.9	24.4	25.7	24.5	37.8	31.0	34.9	31.0	31.1
Non-Performing Loans (NPLs)											
Gross NPLs to Total loans	21.8	19.4	21.6	20.2	17.7	16.4	16.8	14.9	12.6	14.9	7.2
Provisioning rate	64.0	66.4	66.5	59.0	55.9	64.6	65.5	70.9	73.3	70.9	77.6
Net NPLs to total loans	9.1	7.5	8.5	9.4	8.6	6.5	6.5	4.8	3.7	4.8	1.7
Net NPLs to capital	96.9	69.2	77.2	80.0	77.8	62.4	41.4	31.0	21.7	26.2	11.5
Earnings and profitability											
Average cost of borrowed funds	3.2	3.0	3.2	...	2.4	...	1.4	...	2.2	...	2.2
Average interest rate on loans	7.8	7.4	7.5	...	6.4	...	6.8	...	5.4	...	6.1
Average interest margin [3]	4.6	4.3	4.3	...	4.0	...	5.4	...	3.2	...	3.9
After-tax return on average assets (ROA)	0.0	0.0	0.1	...	0.5	...	0.6	...	1.0	...	1.1
After-tax return on average equity (ROE)	0.5	0.4	1.9	...	7.0	...	7.6	...	13.9	...	14.0
Noninterest expenses/net banking income	73.2	76.9	74.8	...	78.5	...	67.0	...	64.3	...	59.6
Salaries and wages/net banking income	32.3	33.9	32.4	...	32.9	...	27.6	...	27.1	...	24.1
Liquidity											
Liquid assets to total assets	16.2	14.5	12.5	11.7	12.8	11.5	12.1	9.0	9.7	9.0	12.3
Liquid assets to total deposits	28.0	24.4	19.3	16.8	19.6	18.0	18.4	13.3	15.2	13.3	19.0
Total loans to total deposits	79.4	84.4	83.4	77.9	82.3	79.5	72.9	67.7	65.2	67.7	72.8
Total deposits to total liabilities	57.9	59.2	64.6	69.3	65.4	63.7	65.5	67.6	63.4	67.6	64.6
Demand deposits to total liabilities [4]	24.4	26.3	29.4	31.3	28.5	27.0	30.0	29.5	31.8	29.6	32.5
Term deposits to total liabilities	33.5	32.9	35.1	38.0	36.9	36.7	35.5	38.0	31.7	38.0	32.2

Source: BCEAO.

Note: ... = not available.

[1] The first year of data reporting in accordance with Basel II/III and Revised Chart of Accounts (Interim Data)

[2] Credits reported to the Central Risk Office

[3] Excluding taxes on banking operations.

[4] Including savings accounts.

Table 9. Benin: Indicators of Capacity to Repay the IMF, 2023-43[1]

(CFAF Billions)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
IMF obligations based on existing credit (millions of SDRs)																					
Principal	2.7	55.1	69.6	45.7	72.6	83.6	80.6	65.0	47.5	47.5	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest[2]	0.0	18.0	15.6	14.0	13.5	12.1	10.5	9.0	7.4	5.9	4.8	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Total obligations based on existing and prospective credit																					
Principal																					
Millions of SDRs	2.7	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	18.7	15.5	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Billions of CFA francs	2.1	44.3	56.0	36.9	59.0	79.0	88.4	82.5	70.4	70.4	35.2	15.3	12.6	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Percent of government revenue	0.1	2.4	2.7	1.6	2.3	2.8	2.8	2.3	1.8	1.6	0.7	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Percent of exports of goods and services	0.1	1.5	1.8	1.1	1.7	2.1	2.1	1.8	1.4	1.3	0.6	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Percent of GDP	0.0	0.3	0.4	0.2	0.4	0.4	0.5	0.4	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	2.1	44.5	56.2	36.9	58.7	78.1	87.3	81.5	69.5	69.5	34.8	15.1	12.5	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Charges and interest																					
Millions of SDRs	0.3	23.9	28.2	30.6	30.0	28.3	24.8	21.8	19.0	16.3	13.9	12.7	12.0	11.4	10.6	9.9	9.2	8.4	7.7	7.0	6.2
Billions of CFA francs	0.3	19.2	22.7	24.7	24.4	23.2	20.3	17.8	15.6	13.3	11.4	10.4	9.8	9.3	8.7	8.1	7.5	6.9	6.3	5.7	5.1
Outstanding IMF credit																					
Millions of SDRs	673.3	740.1	812.3	766.6	694.0	597.3	489.3	388.4	302.4	216.3	173.3	154.6	139.2	124.3	109.4	94.6	79.7	64.9	50.0	35.2	20.3
Billions of CFA francs	543.6	594.9	654.3	618.9	563.4	488.5	400.2	317.7	247.3	176.9	141.7	126.4	113.8	101.7	89.5	77.4	65.2	53.1	40.9	28.8	16.6
Percent of government revenue	32.7	31.7	31.2	26.7	21.8	17.0	12.6	9.0	6.3	4.1	2.9	2.4	2.0	1.6	1.3	1.1	0.8	0.6	0.5	0.3	0.2
Percent of exports of goods and services	20.8	20.8	21.4	18.8	15.8	12.7	9.5	7.0	5.0	3.3	2.5	2.0	1.7	1.4	1.1	0.9	0.7	0.5	0.4	0.3	0.1
Percent of GDP	4.6	4.6	4.7	4.1	3.5	2.8	2.1	1.5	1.1	0.7	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0
Percent of quota	543.9	597.8	656.2	619.2	560.5	482.5	395.2	313.7	244.2	174.7	140.0	124.9	112.4	100.4	88.4	76.4	64.4	52.4	40.4	28.4	16.4
Net use of IMF credit (millions of SDRs)	149.8	66.8	72.2	-45.7	-72.6	-96.7	-108.0	-100.9	-86.1	-86.1	-43.0	-18.7	-15.5	-14.9	-14.9	-14.9	-14.9	-14.9	-14.9	-14.9	-14.9
Disbursements (including prospective ones)	152.4	121.8	141.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF RSF Disbursement	0.0	59.42	89.14	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	2.7	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	18.7	15.5	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Memorandum items:																					
Outstanding IMF credit (Excl. RSF, Percent of quota)	543.9	549.8	536.2	499.2	440.5	362.5	275.2	193.7	124.2	54.7	20.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (billions of CFA francs)	11,852	12,922	13,963	15,095	16,312	17,629	19,049	20,578	22,225	24,001	25,913	27,973	30,192	32,528	35,009	37,675	40,537	43,611	46,874	50,376	54,135
Exports of goods and services (billions of CFA francs)	2,616	2,856	3,056	3,295	3,561	3,854	4,207	4,556	4,934	5,341	5,782	6,241	6,736	7,258	7,811	8,406	9,045	9,731	10,459	11,240	12,079
Government revenue (billions of CFA francs)	1,661	1,876	2,097	2,319	2,588	2,868	3,175	3,532	3,926	4,360	4,837	5,361	5,795	6,252	6,738	7,261	7,824	8,429	9,072	9,764	10,507
CFAF/SDR (period average)	807	804	805	807	812	818	818	818	818	818	818	818	818	818	818	818	818	818	818	818	818
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

[1] Data are projections

[2] On July 14, 2021, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through July 2023 and possibly longer. The Board also decided to extend zero interest rate on ESF until end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of the SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

Table 10. Benin: Access and Phasing Under the EFF/ECF Arrangements, 2022-25

Availability date	Amount (SDR Million)			Percent of Quota[1]			Conditions for disbursement/purchases
	Total	ECF	EFF	Total	ECF	EFF	
July 8, 2022	108.30	36.10	72.20	87.48	29.16	58.32	Executive Board approval of the ECF/EFF arrangements
November 21, 2022	108.30	36.10	72.20	87.48	29.16	58.32	Observance of end-June 2022 performance criteria, and completion of the first review under the arrangements.
May 1, 2023	50.82	16.94	33.88	41.04	13.68	27.36	Observance of end-December 2022 performance criteria, and completion of the second review under the arrangements.
November 1, 2023	101.58	33.86	67.72	82.06	27.36	54.70	Observance of end-June 2023 performance criteria, and completion of the third review under the arrangements.
May 1, 2024	31.20	10.40	20.80	25.20	8.40	16.80	Observance of end-December 2023 performance criteria, and completion of the fourth review under the arrangements.
November 1, 2024	31.20	10.40	20.80	25.20	8.40	16.80	Observance of end-June, 2024 performance criteria, and completion of the fifth review under the arrangements.
May 1, 2025	26.20	8.70	17.50	21.16	7.03	14.14	Observance of end-December 2024 performance criteria, and completion of the sixth review under the arrangements.
October 31, 2025	26.458	8.849	17.609	21.37	7.15	14.22	Observance of end-June 2025 performance criteria, and completion of the seventh review under the arrangements.
Total	484.058	161.349	322.709	391.00	130.33	260.67	

Sources: IMF Staff Estimates

1/ Benin's quota is 123.8 million SDR.

Table 11. Benin: Proposed Schedule of Disbursements Under the RSF Arrangement, 2024-25

Availability Date	Amount		Total Amount		EFF/ECF Review	Conditions for Access
	SDR Millions	Percent of Quota[1]	SDR Millions	Percent of Quota		
May 1, 2024	9.904	8	19.808	16	**4th EFF/ECF Review**	Reform measure 1 implementation
	9.904	8				Reform measure 7 implementation
November 1, 2024	9.904	8	39.616	32	**5th EFF/ECF Review**	Reform measure 4 implementation
	9.904	8				Reform measure 6 implementation
	9.904	8				Reform measure 11 implementation
	9.904	8				Reform measure 12 implementation
May 1, 2025	9.904	8	49.52	40	**6th EFF/ECF Review**	Reform measure 5 implementation
	9.904	8				Reform measure 10 implementation
	9.904	8				Reform measure 13 implementation
	9.904	8				Reform measure 14 implementation
	9.904	8				Reform measure 15 implementation
October 31, 2025	9.904	8	39.616	32	**7th EFF/ECF Review**	Reform measure 2 implementation
	9.904	8				Reform measure 3 implementation
	9.904	8				Reform measure 8 implementation
	9.904	8				Reform measure 9 implementation
Total	148.56	120.0				

Sources: IMF Staff Estimates

1/ Benin's quota is 123.8 million SDR.

Table 12. Benin: Remaining Structural Benchmarks Under the Current EFF/ECF Arrangement, 2023–24

Reform area	Structural benchmark	Due date	Status
Revenue Mobilization	Develop a medium-term revenue strategy (MTRS).	End-September 2023	Met
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023	Met
Public Financial Management	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023	On track
Rule of law	Operationalize the Commercial Court of Appeal with staffing, funding, and equipment to help fill an important gap in Benin's judicial framework and promote greater transparency.	End-November 2023	Met
Anti-corruption	Operationalize the HCPC (*Haut Commissariat à la Prévention de la Corruption*) and strengthen its legal framework to ensure its independence and powers, in consultation with IMF staff	End-June 2024	On track
Public Financial Management	Update the list of bank accounts of public organizations before the end of August 2023 and close at least half of those subject to the obligation to deposit funds in the Treasury and not benefiting from an exemption authorization from the MEF, while repatriating the balances to the public Treasury, no later than the end of June 2024	End-June 2024	On track
AML-CFT	Establish a legal framework which requires the collection and verification of beneficial ownership information of landholders at the time of transfer of land and the publication of this beneficial ownership information on a government website	End-April 2024	**Newly proposed**
Transparency	Establish and operationalize a committee within the audit court to monitor implementation of its audit recommendations	End-February 2024	**Newly proposed**
Business climate	Extend the online land registry (e-cadaster) to completely cover the city of Cotonou, and systematically update land transactions in the e-cadaster	End-April 2025	**Newly proposed**

Table 13. Benin: RSF Reform Matrix

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Mainstreaming the climate agenda into the PFM/PIM processes.	**RM1. PIM Decree and Appraisal Methodology.** Government to amend the regulatory framework governing PIM (Decree 2021-586) in order to include climate concerns in the various stages of PIM, notably identification, appraisal, selection and ex-post evaluation, and to update accordingly the September 2019 P manual.	End-March 2024	C-PIMA	Possible FAD CD	Better alignment of public investment program with climate agenda. Increase in resilient, low-carbon economy and climate-resilient public investments, which will ultimately (i) reduce the frequency of disruptions of critical services, (ii) reduce maintenance and rehabilitation costs and (iii) align it with the country's GHG emission reduction targets.	
	RM2. Maintenance. Government to adopt by end 2024 a methodology to integrate climate vulnerabilities in maintenance policy for key infrastructure assets (roads, buildings) and to pilot this policy in three selected large sectoral ministries, ensuring that the funds allocated to maintenance of non-financial fixed assets within the 2026 draft budget (submitted in October 2025) and within the 2026 budget of Société des Infrastructures Routières et de l'Aménagement du Territoire (SIRAT) are determined on the basis of this maintenance policy.	End-October 2025	C-PIMA	FAD CD needed	Improved estimation and budgeting of maintenance requirements related to climate change. Improved delivery of public services thanks to increased quality of infrastructure.	

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Table 13. Benin: RSF Reform Matrix (concluded)

REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
RM3. State-Owned Enterprises. Government to adopt an implementing decree of Law 2020-20 on State Owned Enterprises to put in place an appropriate legal framework to integrate climate concerns and to publish accordingly a first annual report on SOEs (in the sense of article 65 of aforementioned Law 2020-20) including analysis of (i) the contribution of SOE strategies to climate adaptation and mitigation efforts (ii) the risks related to climate change affecting SOEs	End-October 2025	C-PIMA	Possible FAD CD	Enhanced transparency and integration of climate concerns in the strategy of SOEs, which play a significant role in major sectors of the Beninese economy (total turnover of FCFA 530 billion in 2020, notably for utilities, transport…) and whose investments are not carried by the State budget.	
RM4. Climate Budget Tagging. Government to adopt an implementing order of decree 2020-495 on the calendar for budget works to set the list of budget documents to be produced each year and henceforth institutionalize the production each year of a climate budget brief. Operationalize the reform starting with the budget preparation process for FY25, with involvement of Ministry in charge of Environment and with counterparts in sectoral ministries.	End-October 2024	C-PIMA	Possible FAD CD	Enhanced reporting and transparency on climate-related expenditures as well as improved integration of climate concerns in budget decisions.	

Table 13. Benin: RSF Reform Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Enhancing adaptation to climate change and strengthening the population's resilience.	**RM5. Water Resources:** (1) Adopt a revised decree of the National Water Council, which would include a mandate to monitor groundwater and surface water resources and equip the Council with sufficient human and financial resources to discharge its mission; and (2) Realize a strategic groundwater assessment and have the National Water Council Supervise and validate this assessment.	End-April 2025	CCDR	No	Strengthen governance of water resource management and in particular monitoring of groundwater, which will help address water scarcity (a key risk to agriculture, a critical socio-economic activity)	WB is strongly involved in the water sector and provides complementary support to governance reforms.
	RM6. Water Tariffs in Urban Areas. Institutionalize a mechanism for water tariffication in urban areas based on the following parameters: (i) a tariff study; (ii) a transparent tariff structure in conformity with international good practices and (iii) a financial equilibrium model.	End-September 2024	Possible FAD CD		Further enhance water resource management by providing incentives for conservation and ensuring optimal resource allocation	WB is heavily involved in the water sector and may support this reform.
	RM7. Local Government: Government to propose an amendment to the 2024 budget law setting the principle of taking into account community-identified climate priorities in the criteria for allocation of transfers to local authorities, [whether they take place in the current framework of FADeC – Fund for Support for Communal Development - or within the framework of the new Communal Investment Fund that will replace FADeC], and simulate the implementation of this mechanism for the 2024 FADeC**.**	End-March 2024	CCDR / C-PIMA	No	Increase of public resources for climate-vulnerable communes allowing to better fund adaptation and mitigation projects in their communal development plans adopted in accordance with national strategies, thereby ultimately contributing to a local climate resilient infrastructure.	The KfW Development Bank (Germany), the EU and Belgium have all been involved in supporting local government and ongoing decentralization efforts in Benin, so would be well-placed to assist such a measure. The World Bank is implementing a Community Driven Development project in the northern part of Benin.

Table 13. Benin: RSF Reform Matrix (continued)

REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
RM8. Social protection. Integrate information on climate risks into the Social Registry (RSU), in particular for municipalities identified as being at high risk of flooding.	End-October 2025	WB (in process)	No	Enhance the shock-responsiveness of Benin's social safety net by developing a social registry that can facilitate provision of support to the extreme poor when a natural disaster occurs.	WB support as part of the Social Safety Net Program for Results (PforR)
RM9. Agriculture: Government to adopt a decree to establish an agricultural insurance scheme leveraging existing programs (FNDA), including climate risk mitigation strategies, with a minimum objective of covering by September 2025 two main products amongst the ones identified in the May 2023 feasibility study to the benefit of a minimum of 100,000 producers.	End-September 2025	CCDR FNDA / Swiss Development Cooperation Feasibility Study (May 2023)	No	Support vulnerable populations in building resilience to climate risk in a sector of major socio-economic importance	Swiss Development Cooperation can provide follow-up support as they have been involved in the feasibility study.
RM10. Building codes: Government to adopt in Council of Ministers a draft building code (*projet de loi portant loi-cadre sur la construction et l'habitation*) incorporating technical standards favoring adaptation to future climatic conditions, including with respect to expected climate-hazards' magnitude and frequency, and favoring low-carbon and climate resilient options for planning, technical design, maintenance and inspections, as well as requisite secondary legislation.	End-March 2025	CCDR	No	Strengthen resilience against floods, heavy rains and increased heatwaves, as well as enhance energy efficiency.	Complements ongoing WB work on urban planning and MCC efforts in the areas of energy efficiency.

Table 13. Benin: RSF Reform Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Supporting mitigation efforts	**RM11. Comprehensive fossil fuel subsidy reform:** including (i) the design of a simple tax structure taking into account the specificities of Benin's local fuel market; and (ii) reform the pricing mechanism, in line with the conclusions of IMF technical assistance.	End-October 2024	FAD TA (in process)	FAD TA (in progress)	Institutionalize fuel pricing in a way that systematically aligns domestic pump prices with international oil prices over the cycle. Enables mobilization of private climate finance by sending price signal to investors.	
	RM12. Social protection in relation to fuel subsidy reform. i) Establish a compensatory mechanism to limit the effect of fuel subsidy reform on vulnerable groups using the Social Registry (RSU); ii) adopt an implementation framework for the RSU which defines the Management Information System (MSI) governance structure and provides detailed operational guidance, while ensuring adequate financial, human, and material resources to the unit responsible for the operationalization of the RSU.	End-October 2024	FAD TA (in process) WB (in process)		Enhance Benin's social safety net by supporting the operationalization of the social registry and institutionalizing it to protect vulnerable groups and ensure social cohesion in implementation of subsidy reform (RM11).	The authorities will benefit from WB technical support in elaborating the RSU implementation framework and defining an adequate governance structure
	RM 13. Electricity tariff reform: Design and adopt a comprehensive and gradual electricity tariff reform to fully remove electricity subsidies and reflect cost-recovery levels, with the first phase to be implemented in 2025.	End-January 2025	CCDR	No	Remove electricity price subsidies that indirectly support fossil fuel emissions, and support progress toward the national objective of reaching a 20-30 percent renewable energy penetration by 2035.	World Bank also stands ready to provide some support based on their expertise on the electricity market in Benin.

Table 13. Benin: RSF Reform Matrix (concluded)

	RM14. Support to renewable energy: Remove key obstacles to development of renewable energy (RE) by adopting regulations and decisions to (i) putting in place a connection cost policy supporting connection for RE generation and (ii) committing to carrying out regular assessments of the flexibility of the grid and issues related to renewable integration.	End-January 2025	CCDR Various academic publications on renewable energy in Benin (Renewable energy in Benin.	No	Support progress toward the national objective of reaching a 20-30 percent renewable energy penetration by 2035.	WB may provide some support based on their expertise on the electricity market in Benin. MCC – which provided significant support in this area – is winding down their involvement after the expiration of the MCA-II Compact.
Mobilizing private sector financing for climate change.	**RM15.** Enhance the climate financial information architecture by the adoption by way of decree (arrêté) by the Ministry of Economy and Finance, and subsequent implementation of two complementary frameworks: i) a climate-related taxonomy (reference framework for private sector climate investment) covering mitigation and adaptation needs across key sectors defining financing and climate-related targets and private financing instruments; and ii) a climate mitigation and adaptation data collection and dissemination mechanism, connected to the taxonomy, across key sectors for private companies and key economic infrastructures. This mechanism will be coordinated and implemented by the National Statistics and Demography Institute, requiring the adoption of an arrêté under the 2022 legal framework governing the Institute's missions.	End-May 2025	MCM (in line with CCDR and AfDB recommendations)	Possible MCM TA input (based on the "Activating Alignment" September 2023 report)	Facilitate the financing of mitigation and adaptation activities by the private sector.	World Bank may provide some inputs given the joint work with IMF on alignment methodologies.

Figure 6. Benin: Timing of Proposed Reform Measures

	4th EFF/ECF Review (May 2024)	5th EFF/ECF Review (November 2024)	6th EFF/ECF Review (May 2025)	7th EFF/ECF Review (October 2025)
Pillar 1: Mainstreaming the climate agenda into the PFM/PIM processes.	**RM1 (PIM Decree/Appraisal Methodology)** Government to amend the legal framework governing PIM and incorporate climate concerns in key stages of the PIM lifecycle (appraisal, selection and evaluation)	**RM4 (Climate budget brief)** Government to adopt an implementing order of decree 2020-495 on the budget works calendar setting the list of budget documents to be produced each year and henceforth institutionalize the production each year of a climate budget brief. Operationalize the reform starting with the budget preparation process for FY25, with involvement of Ministry in charge of Environment and with counterparts in sectoral ministries.		**RM2 (Maintenance)** Government to adopt methodology to integrate climate vulnerabilities in maintenance policy for key infrastructure assets (roads, buildings) and to pilot in three select large sectoral ministries, ensuring funds allocated to maintenance of non-financial fixed assets within the 2026 draft budget and 2026 budget of *Société des Infrastructures Routières et de l'Aménagement du Territoire* (SIRAT) are determined based on this maintenance policy. **RM3 (SOEs)** Government to adopt an implementing decree of Law 2020-20 on SOEs to put in place an appropriate legal framework to integrate climate concerns and a first annual report on SOEs accordingly including analysis of (i) the contribution of SOE strategies to climate adaptation and mitigation efforts (ii) the risks related to climate change affecting SOEs.
Pillar 2: Enhancing adaptation to climate change and strengthening the population's resilience.	**RM7 (Local government)** Government to propose an amendment to the 2024 budget law setting the principle of taking into account community-identified climate priorities in the criteria for allocation of transfers to local authorities, whether in the current FADeC framework or the new Communal Investment Fund's framework replacing FADeC and simulate the implementation of this mechanism for the 2024 FADeC.	**RM6 (Water tariffs in urban areas)** Institutionalize a mechanism for water tariffication in urban areas based on the following parameters: (i) a tariff study; (ii) a transparent tariff structure in conformity with international good practices and (iii) a financial equilibrium model.	**RM5 (Water governance)** (1) Adopt a revised decree of the National Water Council, which would include a mandate to monitor groundwater and surface water resources and equip the Council with sufficient human and financial resources to discharge its mission; and (2) Realize a strategic groundwater assessment and have the National Water Council Supervise and validate this assessment. **RM10 (Building code)** Government to adopt in Council of Ministers a draft building code incorporating technical standards favoring adaptation to future climatic conditions, including with respect to expected climate-hazards' magnitude and frequency, and favoring low-carbon and climate resilient options for planning, design, maintenance and inspections, as well as requisite secondary legislation.	**RM8 (Social protection/RSU)** Integrate information on climate risks into the Social Registry (RSU), in particular for municipalities identified as being at high risk of flooding. **RM9 (Agricultural insurance)** Government to adopt a decree to establish an agricultural insurance scheme leveraging existing programs (FNDA), including climate risk mitigation strategies, with a minimum objective of covering two main products identified the May 2023 feasibility study by September 2025 to the benefit of a minimum of 100,000 producers.
Pillar 3: Supporting mitigation efforts.		**RM11 (Fossil fuel subsidy reform)** Comprehensive fossil fuel subsidy reform: including (i) the design of a simple tax structure taking into account the specificities of Benin's local fuel market; (ii) reform the pricing mechanism. **RM12 (Social Protection/subsidy reform)** (1) Establish a compensatory mechanism to limit the effect of fuel subsidy reform on vulnerable groups using the Social Registry (RSU); (2) adopt an implementation framework for the RSU which defines the Management Information System (MSI) governance structure and provides detailed operational guidance, while ensuring adequate financial, human, and material resources to the unit responsible for the operationalization of the RSU.	**RM 13 (Electricity tariff reform)** Design and adopt a comprehensive and gradual electricity tariff reform to fully remove electricity subsidies and reflect cost-recovery levels, with the first phase to be implemented in 2025. **RM 14 (Support to renewable energy).** Remove key obstacles to development of renewable energy (RE) by adopting regulations and decisions to (i) putting in place a connection cost policy supporting connection for RE generation and (ii) committing to carrying out regular assessments of the flexibility of the grid and issues related to renewable integration.	
Pillar 4: Mobilizing private sector financing for climate change.			**RM15 (Climate information architecture)** Designing a climate-related taxonomy, and a climate-related data collection mechanism for companies	

Annex I. External Sector Assessment

Overall Assessment: *The external position of Benin in 2022 was moderately weaker than the level implied by medium term fundamentals and desirable policies. The 2022 current account deficit widened further relative to 2021—the highest deficit observed in the past 5 years and slightly below the level observed during the global oil price shock in 2014 (6.7 percent of GDP), reflecting (i) global factors including the surge in international oil and food prices amid the war in Ukraine and the depreciation of the FCFA vis-à-vis the US dollar as well as (ii) domestic factors such as a sharp drop in cotton production amid floods, the launch of infrastructure projects under the second generation Government's Action Program (PAG II; 2021–26) and increased public spending to address urgent development needs and mitigate spillovers from protracted war in Ukraine and regional security risks.*

There is an expected improvement in the current account in 2023–24 supported by the normalization of oil and food prices along with the expected fiscal consolidation and the government's far-reaching projects to enhance the port competitiveness and facilitate exports. However, risks remain elevated stemming from the increased volatility of commodity prices amid heightened global uncertainty and headwinds from Niger border closure. Although cotton prices are expected to remain elevated over the medium term (albeit well-below their 2022 level), export proceeds may not increase due to more limited volumes after nearly tripling in volume between 2015–20. Reduced reliance on cheaper smuggled fuel products from Nigeria would add to the import bill over the medium term.

Potential Policy Responses: *The planned growth-friendly fiscal consolidation starting from 2023 towards a gradual convergence to the overall fiscal deficit of 3 percent of GDP in line with the WAEMU stance is warranted. Developing a medium-term plan for reforming fuel subsidies and phasing out food subsidies will help re-anchor fiscal balances and alleviate pressures from soaring oil and food prices on the budget. The ongoing efforts to bolster the institutional foundations of private sector-led inclusive growth and orderly development of the Special Economic Zone (SEZ) would contribute to enhance economic diversification and attract foreign private investment into export-oriented manufacturing.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The assessment of the net international investment position (NIIP) is based on the latest data available (2021). Financial assets (36 percent of GDP) comprise portfolio investments (16 percent of GDP), other investments (7 percent of GDP), and reserves (9 percent of GDP), while concessional loans to the government (45 percent of GDP) represent more than a half of financial liabilities (85 percent of GDP). Benin's NIIP deteriorated to -43 percent of GDP at end-December 2021, from -33 percent of GDP at end-December 2020; a substantial increase from 23 percent of GDP five years prior (2017). This reflects a higher increase in gross liabilities towards the rest of the word compared to gross assets, due to a significant increase in portfolio investments (Benin issued US$1 billion Eurobond and US$500 million SDG bond) as well as direct investments (which doubled from 2020 to reach 1.7 percent of GDP) to finance the current account deficit. The valuation effects on gross assets and liabilities are estimated to around 0.2 and 0.7 percent of GDP respectively.

Assessment. The projected improvements in the current account over the medium term should contribute to stabilizing the NIIP to GDP ratio. Unanticipated spending needs, a further deterioration in the terms of trade, and a slowdown in real GDP growth pose risks to external sustainability. However, the authorities' demonstrated commitment to reform along with continued concessional financing support from donors are mitigating factors to external sustainability risks. As a result, the NIIP is assessed as sustainable under the baseline over the medium term. External debt is also assessed as part of the 2023 DSA for Benin.

Data for 2021 (% GDP)	NIIP: -43.4	Gross Assets: 34.9	Debt Assets: 20.8	Gross Liab.: 85.3	Debt Liab.: 77.7

Current Account

Background. The CA deficit is estimated to have widened to 6.2 percent of GDP in 2022, which is a significant increase compared to the average of the last five years (3.7 percent of GDP), reflecting terms of trade deterioration (due to soaring oil and food prices), drop in cotton production as well as a rebound in imports stemming from the USD appreciation against the CFA franc and the scaling up of public investment.

Under the baseline projection, the CA deficit is projected to be in the range of 4–5 percent of GDP over the medium term on account of fiscal consolidation and ongoing reforms to boost competitiveness following the completion of far-reaching projects under PAG-II, including the expansion of Port of Cotonou, exploring new trade opportunities with Nigeria amid the ongoing structural transformation and efforts to enhance investor confidence amid the acceleration of the SEZ . Nevertheless, important risks remain given volatile commodity prices amid heightened global uncertainty, persistent regional insecurity risks and vulnerability to climate change and uncertainty.

Assessment. The CA gap, defined as the difference between the cyclically-adjusted CA and the CA norm is estimated at 1.7 percent of GDP. The cyclically-adjusted CA adjusts the CA for temporary factors, including the state of the business cycle, the impact of COVID-19 on tourism, the impact of natural disasters and conflicts, while the CA norm represents the CA that would be expected based on Benin's fundamentals and if policies are adjusted to their desirable stance at home and abroad. As a result, the EBA CA model suggests that the external position for Benin in 2022 was moderately weaker than the level implied by fundamentals and desirable policies (between -2 and -1 percent of GDP).

Benin: Model Estimates for 2022 (in percent of GDP)

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-6.2**	
Cyclical contributions (from model) (-)	1.0	
COVID-19 adjustors (-) 2/	-0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-7.1**	
CA Norm (from model) 3/	**-5.4**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-5.4**	
CA Gap	**-1.7**	**3.9**
o/w Relative policy gap	2.0	
Elasticity	-0.2	
REER Gap (in percent)	**8.8**	**-21.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (0.07 percent of GDP). 100 percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The CFA franc (CFAF), the WAEMU currency union, is pegged to the euro. While the CFAF depreciated annually by about 2 percent on average in nominal effective terms over the period 2017-21, Benin's real effective exchange rate (REER) was stable thanks to lower inflation compared to trading partners. The REER depreciated by 8.7 percent in 2022 (and 8 percent compared to the average REER during the five preceding years), driven by the depreciation of the euro against the US$ amid spillovers from the war in Ukraine and reflecting relatively low inflation in Benin (1.4 percent), as a strong harvest season and subsidy measures adopted since Russia's invasion of Ukraine partially offset import price pressure.

Assessment. The EBA-lite CA model suggests REER over-valuation of 8.8 at end-2022 consistent with the CA estimated gap (-1.7 percent of GDP), assuming an elasticity of the real exchange rate to the CA deficit of -0.2. In contrast, the EBA-Lite Index Real Effective Exchange Rate (IREER) model suggests an exchange rate under-valuation of -21 percent and an underlying CA gap around 3.9 percent of GDP. As in past external sector assessments, staff find the REER model results tend to be an outlier that needs to be treated with caution in the context of Benin's CA deficits. Also, when the models are in contradiction, it is quite common to rely on the CA deficit model.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2022, net capital inflows are estimated to have decreased to 5.1 percent of GDP, from the historical high level of 8.7 percent observed in 2021, as the drop in net portfolio flows after the sharp and temporary increase in 2021 (5.0 percent of GDP), more than offset higher external project loans and the steady increase in FDI toward the construction sector including to achieve the Niger-Benin pipeline project and launch construction in the SEZ to host new operators.

The financial account is projected to gradually stabilize around -4 percent of GDP over 2023-28, compared to -5.4 percent of GDP on average over 2018-21, as fiscal consolidation will help reduce external borrowing needs over the medium term. In the meantime, FDI are expected to stabilize in terms of GDP around 1.6 percent only slightly above their historical levels (1.3 percent of GDP during 2018-21) as reforms help improve investor confidence. Portfolio investments would remain below their 2021 peak, reflecting conservative assumptions on new Eurobond issuances given uncertainty surrounding borrowing conditions on the international capital market.

Assessment. A shift in market sentiment leading to higher spreads and rollover costs could heighten debt risks and narrow access to international markets. Nevertheless, there is upside potential on budget support over the medium term. An orderly development of the SEZ would also help attract more private capital inflows. In addition, fiscal consolidation from 2023 towards a gradual convergence to the overall fiscal deficit of 3 percent of GDP will help reduce external borrowing needs over the medium term.

FX Intervention and Reserves Level

Background. Benin is part of the WAEMU currency union where the reserves are pooled at the regional level. The WAEMU pooled reserves declined to about 4.5 months of prospective import by end-2022 (stood at 3.2 months of imports in August), from 5.6 months in 2021, reflecting a challenging external financing environment, soaring food and energy prices, and still elevated fiscal deficits. In subsequent years, the reserve import coverage ratio would stabilize at around 4.6 months, as the decline in the current account ratios will help support the reserve position and weather the abovementioned projected reduction in net capital inflows.

Assessment. Based on the ARA metric for credit constrained (CC) economies,[1] the level of reserves estimated for end-2022 (4.5 months of imports) is assessed as being somewhat adequate. Growth-friendly fiscal consolidation and implementation of structural reforms to diversify the region's export base would help rebuild reserves and contribute to consolidate the external position at the WAEMU level.

[1] The ARA CC model based on 2021 data (the most recent data point) estimates an adequate range for the level of reserves of 4.5 to 6.4 months of prospective import coverage for the WAEMU, with the lower end calibrated on fragile states and the higher end calibrated on non-resource rich countries.

Annex II. Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
		External Risks	
Repeated extreme climate events	**Medium** **Short to Medium Term**	**High** Extreme climate events could disrupt schools in remote areas and affect water supply and sanitation. Climate risks to agriculture could compound other social and security challenges.	Strengthen resilience to climate change and recourse to sustainable agriculture while enhancing private sector participation to climate financing; mitigate the immediate impact on the poor including through targeted transfers and emergency assistance.
Intensification of regional conflicts	**High** **Short to Medium Term**	**High** Intensification of regional security shocks could potentially have large adverse effects on transit activity and public finances, and complicate policy implementation.	Enhance State presence in communities at risk through improved access to basic public services; improve public spending efficiency and commit to a credible medium-term fiscal consolidation.
Sharp rise in food and energy prices amid the war in Ukraine	**Medium** **Short to Medium Term**	**High** Higher commodity prices and tighter financial conditions could add to purchasing power erosion and delay addressing pre-existing social challenges.	Rely on cost-effective targeted measures in response to the food and energy price shock and reduce non-priority spending to preserve programmed fiscal targets; bolster investors' confidence through careful communication on policy actions, and maintain prudent debt policy and management; mobilize more concessional financing.
Adverse developments in Nigeria	**High** **Short to Medium Term**	**High** Slower recovery would reduce trade revenues, and growth in Nigeria, Benin's main trading partner, with adverse impact on Benin's re-exports, customs revenue, and informal trade.	Move away gradually from the transit-centered "entrepot" growth model; improve the business environment to support economic diversification and private sector development.
		Domestic Risks	
Policy implementation risks, due to widespread social discontent and political instability	**Medium** **Short Term**	**High** Social tensions could increase political polarization, undermine economic activity, disrupt the reform agenda, and exert pressure on the budget.	Strengthen social safety nets to mitigate the impact on the poor; enhance the delivery of basic public services; ensure transparency and accountability in public spending and improve the efficiency of public investment.
Intensification of financial sector vulnerabilities	**Medium** **Short to Medium Term**	**Medium** A surge in non-performing loans (e.g., due to exposure to Niger) could deteriorate confidence and lower capital, affecting banking sector stability and credit to the private sector.	Enhance monitoring of financial sector developments; consult with the WAEMU banking commission and communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 and 3 years, respectively.

Annex III. Building Resilience to Climate Change[1]

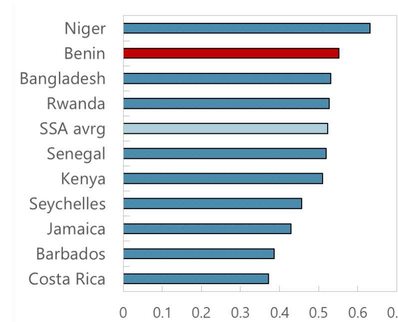
This annex analyzes climate risks in Benin and lays the foundations for Fund support to the country under the Resilience Sustainability Facility (RSF). It finds that many of Benin's most important economic sectors are exposed to climate hazards that threaten balance-of-payment stability—agriculture is subject to droughts while disasters deter tourism and coastal erosion threatens the freight industry, all important sources of foreign exchange earnings. Moreover, climate change has a disproportionate impact on rural dwellers, the poor, women (and children), partly due to their precarious income and limited resources to respond to weather-related shocks. The authorities' climate agenda is underpinned by strong legal and institutional foundations. Based on those considerations and building on the Benin's existing climate plans, the RSF can be usefully geared towards improving socio-economic resilience while supporting adaptation to climate change and transition away from fossil fuels. It would also help catalyze additional donor support and private sector financing.

A. Climate Risks

1. Benin is one of the most vulnerable countries to climate hazards worldwide. Specifically, Benin ranks as the 23rd most vulnerable out of 185 countries (see Figure 1), with likely significant economic and human impacts, especially on the poor, women, and rural dwellers. Climate change threatens Benin's hard-earned development gains. The macroeconomic cost of inaction is estimated to be around 6-8 percent of GDP in the 2030s and up to 17 percent in 2050.[2] In addition, more than half of foreign exchange earning activities take place in climate-sensitive sectors, such as agriculture, tourism, and freight.

2. Climate hazards are indeed a day-to-day reality in Benin. Its area is exposed to extreme temperatures – with the number of days with extreme heat tripling over the past decades (Figure 2). The number of consecutive days without precipitation (dry days) is also on an upward trend throughout the country (Figure 3). And while the average annual precipitation has not changed, rains are getting more intense (Figure 4), which causes floods to be more severe along the rivers and the coast—11 floods were recorded over the past 15 years.[3]

Figure 1. Climate Change Vulnerability Index: Benin vs. RSF Recipients[1]



Sources: ND-Gain Vulnerability index and IMF staff calculations.
1/ The vulnerability score is between 0-1 (the higher the score the more vulnerable is the country).

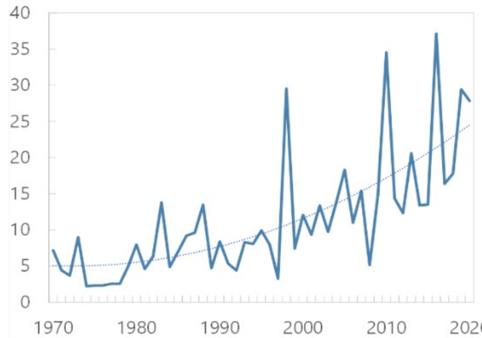
3. Benin is subject to different types of climate hazards, with significant spatial heterogeneities. The northern regions are prone to both droughts and floods, while the southern regions are prone to floods (Figure 6) and subject to one of the highest rates of coastal erosion in the Gulf of Guinea—about 4 meters per year for two thirds of the coastline.

[1] Prepared by Balazs Stadler (AFR).

[2] WB CCDR

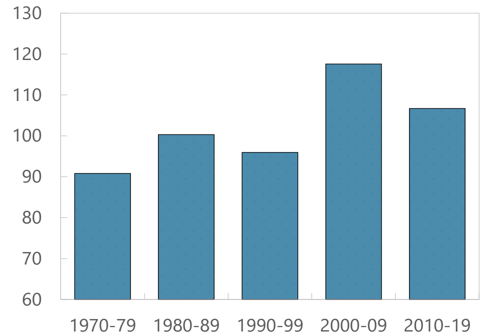
[3] EMDAT

Figure 2. Number of days per year with extreme heat, 1970-2020



Sources: World Bank Climate Change Knowledge Portal. Extremely heat is defined as heat index above 35 °C, i.e. after taking account of humidity the temperature feels 35 °C or above.

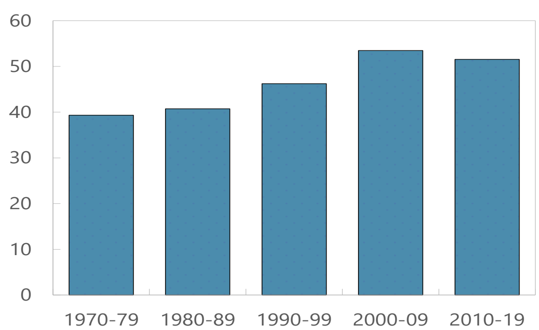
Figure 3. Decade Average of Maximum Consecutive Dry Days per Year, 1970-2019



Sources: World Bank Climate Change Knowledge Portal. Dry day is defined as day with less than 5 mm precipitation.

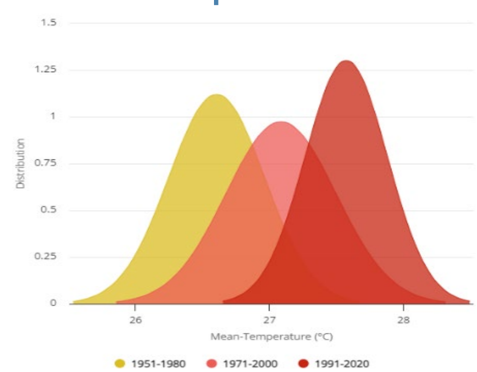
Figure 4. Decade Average of Maximum 1-Day Preciptation per Year, 1970-2019

(Millimeter, averages)



Sources: World Bank Climate Change Knowledge Portal.

Figure 5. Change in the distribution of annual mean temperature for 30-year periods



Sources: World Bank Climate Change Knowledge Portal.

4. **Climate change will have a severe impact on agriculture, a key socio-economic sector in Benin.** Increasing daily average temperatures (Figure 5) and changing precipitation patterns disrupts the water cycle and impact agriculture. According to a study cited by the IPCC, the current agricultural productivity of Benin is about 40 percent lower, when compared to a counterfactual without climate change[4]. Agriculture accounts for 27 percent of GDP, employs more than two-thirds of the active population and 45 percent of exports. Its share of water consumption is 80 percent, yet less than 1 percent of agricultural land is irrigated.[5] As droughts are projected to last longer, more severe and more frequent, water resources and agricultural production will be strained further, which will likely reduce the yields of major crops. For example, cassava yields are projected to decline up to 27 percent, yams up to 15 percent, and cotton yields up to 6 percent by 2041-50 in

[4] Ortiz-Bobea et al (2021) Anthropogenic climate change has slowed global agricultural productivity growth. *Nature* Accessed on 09/20/2023: https://www.nature.com/articles/s41558-021-01000-1, cited in IPCC AR6.

[5] World Bank and authorities.

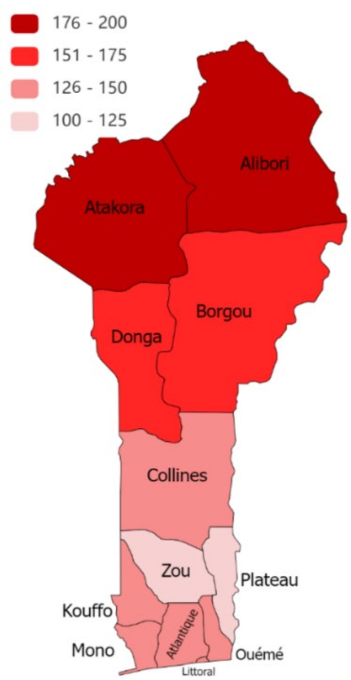
the most pessimistic scenario—these crops together account 70 percent of crop revenue.[6] These changes in turn will impact macro-indicators and possibly pose a risk to balance-of-payments stability, with 97 percent of Beninese agricultural firms surveyed by the World Bank indicating exposure to at least one environmental risk.[7] The vulnerability of agriculture to climate shocks also pose food insecurity challenges (Box 2 in the main text), especially in the northern part of the country.

5. Climate risks and security-related challenges are intertwined in the northern region. While conflicts between farmers and nomadic pastoralists have many underlying causes—demographic growth, urbanization, and industrialization—one of its cores is increased scarcity of resources: water and land.[8] The disruption of water cycle by climate change and the increased land under cultivation, will likely exacerbate the conflicts.

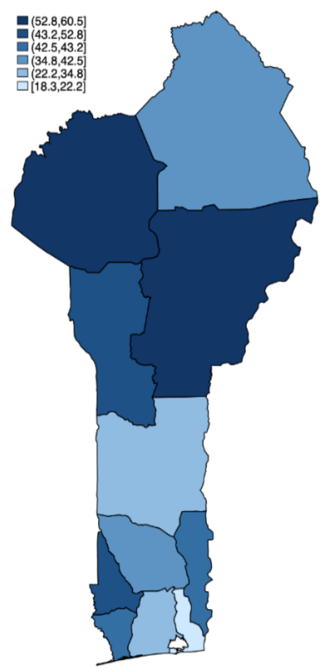
Figure 6. Climate Spatial Heterogeneity

A. Number of Floods, 1990-2022

B. Maximum Number of Consecutive Dry Days, 1995-2014 (annual average)



C. Poverty Rate, 2018/19 (percent of population)



Sources: EM-DAT, CRED / UCLouvain, Brussels, Belgium – www.emdat.be (A); World Bank Climate Change Knowledge Portal (B); World Bank based on EHCVM 2018/19 (C).
Note: Dry day is defined as a day with less than 5 mm precipitation.

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[6] WB CCDR

[7] WB CCDR

[8] De Bruijne (2021) Laws of Attraction – Northern Benin and risk of violent extremist spillover. Netherlands Institute of International Relations. https://www.clingendael.org/sites/default/files/2021-08/laws-of-attraction.pdf

6. Deforestation is making Benin more vulnerable to climate risks. Benin's forests provide energy, food, medicine and income for thousands of communities, and also regulate the water cycle.[9] In the last 20 years, Benin lost about 25 percent of its forest cover, mainly driven by expansion of subsistence agriculture and the dependence of firewood for cooking and heating.[10] The current deforestation rate is about 2 percent a year, which will decrease groundwater recharge. These effects are expected to be amplified with climate change, as droughts and wildfires become more pervasive, leading to further tree cover loss and disruption of essential ecosystem services. In addition, emissions from deforestation and land-use change are the largest contributors to greenhouse gas emissions - about 40 percent of total emissions.

7. Climate change will have a direct impact on health and capital, with implications for the labor force and productivity. Extreme heat has a large, direct impact on the physical and mental capacity of the labor force, as well as indirectly contributing to the faster spread of diseases.[11] Part of the effect is driven by the large share of informal employment. According to the CCDR (Box 1), more frequent and extreme temperatures have the largest macroeconomic costs through loss of labor productivity, up to 12 percent of GDP by 2050. Floods could also contribute to the spread of diseases, and the direct human costs can be very high: just the most recent 2021 and 2022 floods have caused dozens of deaths and affected about 110 thousand people – this is in addition to the closure of many primary schools and dozen colleges, which likely impacts human capital accumulation.[12] Extreme floods also destroy public capital (e.g., infrastructure) and private capital (e.g., buildings). While data on damages are often scarce, the 1995 flood – which was the fifth most severe flood in the past twenty years, in terms of number of people affected – caused US$6 million damage (2022 dollars; or about 0.14 percent of the GDP in 1995).[13] In the future, extreme floods are projected to cause 2 percent of GDP loss in the 2030s, though this figure could be as high as 6 percent.[14]

8. Coastal erosion, driven by climate change, will disrupt port activity, tourism and displace massive populations. More than a fifth of the Beninese population lives in the southern coastal zones, gravitating towards urban centers. That number is projected to increase to 60 percent by 2050 (according to a study cited by the IPCC), which would make Benin's population the most exposed to sea-level rise in sub-Saharan Africa (see Figure 7 for IPCC projections) [15]. Sea-level rise also impacts water security and agriculture through salinization – with 20 percent increase of saltwater intrusion area between 2015 and 2020, according to an academic study.[16]

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[9] World Bank (2020) Benin Country Forest Note. https://openknowledge.worldbank.org/entities/publication/75e2d9f8-8a8d-5fb1-89c9-f39af08580ac

[10] WB CCDR

[11] WB CCDR

[12] EM-DAT and https://floodlist.com/africa/benin-floods-september-october-2022

[13] EM-DAT

[14] Lower bound of estimates for SSP3-7.0 scenario in the WB CCDR.

[15] Neumann et al (2015) Future Coastal Population Growth and Exposure to Sea-Level Rise and Coastal Flooding - A Global Assessment. *PLoS One*. https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0118571 in IPCC AR6.

[16] Agossou, Yang and Lee (2022) Evaluation of Potential Seawater Intrusion in the Coastal Aquifers System of Benin and Effect of Countermeasures Considering Future Sea Level Rise. *Water.* 14(24) Accessed at: https://www.mdpi.com/2073-4441/14/24/4001

Ultimately degrading water quality will decrease agricultural productivity and impact the health of local population. Vulnerable populations living in informal settlements will be especially hard hit by hazards such as coastal floods and storm surges. In addition, coastal erosion deters tourism, which is an increasingly important source of foreign exchange earnings. It also affects transport infrastructure – the main growth engine of the Beninese economy, including via the port of Cotonou. The current annual cost of coastal erosion is estimated to be 1.3 percent of GDP, likely to rise overtime.[17]

9. Climate change in Benin is likely to affect women, poor and rural dwellers disproportionately. Despite recent advances, there is scope for further progress in gender equity in Benin; the country ranks 152 out of 170 countries in 2021 in UNDP's Gender Inequality Index. Women are more likely to work in sectors vulnerable to climate risks, such as agriculture or the informal economy. Moreover, societal norms limit the adaptive capacity of women compared to men: women have less social capital, about 24 percentage point lower literacy rate, greater incidence of poverty, fewer assets - only 4 percent of women own agricultural land compared to 26 percent of men.[18] Accordingly, women are projected to suffer heavier employment losses. Relatedly, children in Benin are 15th most exposed and vulnerable to climate risks in the world.[19] Likewise, the poor and rural dwellers are more vulnerable to climate risks, because they lack resources to adapt—over 77 percent of rural households belong to the lowest wealth quintile. Their vulnerability is exacerbated by the prominence of subsistence agriculture, with 80 percent of agricultural production used for own consumption. Therefore, rural households are almost twice as likely to be affected by climate shocks, when compared with their urban counterparts. Inadequate infrastructure further compounds their vulnerabilities as it hinders access to markets, health facilities, and alternative income generating activities—only 23 percent of rural population has access to all weather roads.[20]

10. Businesses have reported high exposure to climate risks in a recent World Bank survey. Changing temperatures, water scarcity and floods are the main climate risks perceived by the private sector in Benin – with 73 percent of surveyed firms indicating exposure to at least one environmental risk. As mentioned above, this number is 97 percent for agricultural firms. According to the survey, about half of Beninese firms have already invested in adaptation, the most prominent investments being temperature control, soil management practices and resilient transportation. Around 78 percent of agricultural firms invested in adaptation measures, with power generation systems being the most widespread investment.[21]

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[17] Cost of coastal zone degradation https://documents1.worldbank.org/curated/en/822421552504665834/pdf/The-Cost-of-Coastal-Zone-Degradation-in-West-Africa-Benin-Cote-dIvoire-Senegal-and-Togo.pdf

[18] CCDR

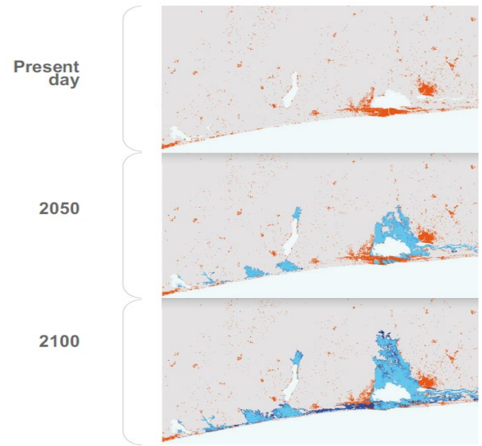
[19] UNICEF (2021) The climate crisis is a child rights crisis. https://www.unicef.org/media/105376/file/UNICEF-climate-crisis-child-rights-crisis.pdf

20 WB CCDR

21 WB CCDR

11. While Benin emits only a small fraction of global GHG emissions, mitigation might be necessary along the development path. Per capita CO_2 emissions doubled over the past 20 years, though they remain low at 0.6 tCO_2e. Just under 60 percent of greenhouse gas emissions come from three sectors: land-use change and forestry, transport, and agriculture.[22] While per capita emissions from agriculture and land-use change and forestry have been stagnant, emissions from transportation have been growing rapidly, with per capita emissions increasing sixfold during 2000–21 (Figure 7). The increase is driven by the rising importance of the transport sector in the economy, including related to transit trade, leveraging the strategic position of the Port of Cotonou. In recent years the fastest growing sector in terms of per capita emissions was electricity generation, likely due to the increased access of population to electricity.

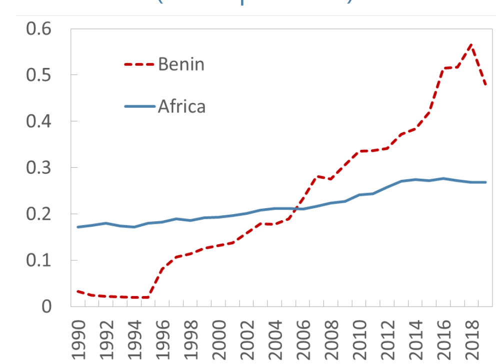
Figure 7. Projected Sea-Level Rise in the Coastal Area of Benin



Sources: IPCC (2022) AR6 WGII – Chapter 9 – Figure 9.29
Note: Orange dots show the built up area in 2014. Shades of blue indicate the projected permanent flooding due to sea-level rise, with darker shades indicating higher emissions scenarios. RCP2.6, RCP4.5 and RCP8.5 are included.

12. Mitigation will bring economic and human benefits. Mitigation will also have the co-benefit of reducing local air pollution, thereby improving human and plant health, providing benefits to agriculture.[23] According to the 2019 Global Burden of Disease, air pollution is the second most serious health risk factor in Benin, after malnutrition.[24] It ranks higher than water and sanitary considerations, high blood pressure, alcohol or tobacco use. The IMF-WB CPAT model estimates that air pollution currently causes more than 12 thousand deaths in Benin per year, which will likely increase in the future.[25] In addition, air pollutants emitted together with greenhouse gases are known to decrease productivity in agriculture—hence 42 percent of agricultural firms surveyed in Benin installed air pollution controls. These co-benefits of mitigation are also acknowledged in Benin's NDC.

Figure 8. CO_2 Equivalent Emissions from Transport Sector, 1990–2019
(Per capita tons)



Sources: Climatewatch.

[22] WB CCDR
[23] IPCC AR6 WG3 Chapter 4
[24] https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(20)30752-2/fulltext
[25] The Climate Policy Assessment Tool (CPAT) is a spreadsheet-based model of the IMF and the World Bank designed to help policymakers to assess, design, and implement climate mitigation policies. It incorporates the modelling of various mitigation policies and their effect on a number of economic and environmental outcomes, including greenhouse gas emissions, sectoral output, inequalities, and air pollution. See https://www.imf.org/en/Topics/climate-change/CPAT.

Box 1. Preliminary CCDR Findings[1/]

The World Bank's draft CCDR emphasizes the connection between development and addressing climate challenges in Benin. The report estimates GDP losses from climate change of 6-8 percent in the 2030s to 10-17 percent in the 2050s in case of the most pessimistic scenario of no additional policy. Losses are expected to be primarily driven by losses on labor productivity due to heat stress, particularly in agriculture. Poor households and women are likely to be worst affected.

Readiness of the public and private sector to address climate challenges in Benin is mixed. Although Benin has established commitments and strategic plans to address climate change, turning these plans to action remains a challenge. Beninese firms are heterogeneously prepared to face climate change, with only half of firms reporting to have invested in adaptation measures. The financial sector is also highly exposure but there is no mandate to systemically ingrate climate-risk analysis into key financial oversight agencies at the national level and the (regional) BCEAO is not yet exploring greening central bank operations.

Efforts to increase resilience must be led across many economic sectors. Ensuring resilient agriculture, e.g., though climate-smart agriculture, improving water management, and reversing the deforestation trend will be critical. Protecting urban communities through strengthening urban and building codes, and improved governance and investment around coastal erosion will also be important. The report also stresses the need for resilient infrastructure networks to keep people and markets connected, [including rural communities], and to build an "adaptive social protection system" to shelter the most vulnerable from the impact of climate change.

Climate mitigation will be important to avoid-carbon lock-in. The report recommends improving incentives for renewable energy, particularly as the government aims to achieve its ambitious electrification goals. Reducing deforestation, particularly through policies on the use of firewood is also key.

Mobilizing the private sector and innovative solutions will be key in helping meet the significant climate financing needs. In this regard, the report notes the scope to leverage Benin's existing SDG bond framework. It also presents recommendations for de-risking investments and PPPs.

[1/] Prepared by Deirdre Daly (AFR).

B. Current Policies and Priorities

13. **Climate change policy has been an enduring priority for Benin, as reflected in the country's strong legal and institutional foundation for climate reform.** The protection of environment has been entrenched in Benin's constitution since 1990 and the Benin Environmental Agency was established in 1995—the second in Africa. Benin was the first country in Francophone Africa to issue a climate change budget report starting in 2023. The authorities recently elevated the status of the Environment ministry, by merging it with the Infrastructure and Transport ministry, now fourth in the governmental hierarchy (even though it is too early to see tangible benefits). It's also one of the few countries in West Africa with a National Adaptation Plan (NAP), and recently updated their Nationally Determined Contribution. The NDC and NAP highlight eight priority sectors for climate action: (i) water resources, (ii) agriculture, (iii) health, (iv) energy, (v) forest ecosystems, (vi) coastal zones, (vii) infrastructure and urban management, and (viii) tourism. The NAP adds cross-cutting sector, to address explicitly the human costs of climate change and increase resilience of vulnerable and marginalized groups- called "gender, indigenous knowledge, and migration". In this effort authorities lay an emphasis on mainstreaming the concerns of the most vulnerable groups in every climate adaptation sector.

14. Furthermore, Benin has adopted a Law on Climate Change in 2018. The purpose of this law is to combat climate change and its negative effects and consequences, and to increase the resilience of communities. It aims to enable effective response, adaptation, and mitigation measures to be taken by setting precise objectives for sustainable economic and social development, energy security and efficiency, in accordance with the specific provisions of national and international legal instruments related to climate change. The law also mandates the integration of climate change measures in national development programs and projects. The integration of climate change to strategic sectoral plans was already outlined in the Low Carbon and Climate Resilient Development Strategy in 2016.

15. Benin has made considerable progress to mainstreaming climate change in its public financial management framework. Benin's national budget contains 'unallocated resources', which can be used for disaster response in cases of 'immediate need and national interest'. These unallocated resources amount to just under 10 percent of the budget. Since 2020, the government has set up a dedicated disaster risk fund ("FONCAT") to respond to higher frequency lower severity losses (CAF 5 billion for 2023 or 0.04 percent of GDP) – in line with the risk layering recommendation of the World Bank. Though FONCAT has not been operationalized yet, the authorities building up disaster management based on the World Bank's risk layering approach (see next section). Benin's National Fund for Environment and Climate (FNEC) has been accredited by the Green Climate Fund (GCF) in 2020, one of only eleven sub-Saharan African countries to have a national agency accredited by the GCF. In addition, the budget circular for the 2024-2026 budget has explicitly stated integrating climate change into budget as a priority, with suggested steps of implementation it for the ministries and public institutions. As mentioned above, the already took some concrete steps in that direction, the first one in Francophone Africa by issuing a climate budget report in 2023. The budget integration of climate change builds on the experience of budget tagging of gender goals.

16. Benin also made progress on laying foundations for improving resilience of the macro-critical water and agricultural sectors. Drinking water supply is managed by two agencies, with important advances made in recent years increasing access to drinking water from 45 percent to 65 percent in the last five years.[26] The ministry of environment was tasked to work on integrated water management to enable efficient allocation of water, including in agriculture. Given the importance of agriculture in the Beninese economy and society, the government developed a separate adaptation plan for agriculture, which sets out to strengthen disaster risk reduction and management of the sector, promote integrated management of agricultural, forest and pastoral resources, and enhance the resilience of the different production systems to climate change.

17. Most recently, Benin has adopted during the summer of 2023 several decrees related to climate change adaptation. Most decrees relate to coastal protection and management. These include clarifying ministerial responsibilities of coastal management, several regulations on coastal fishing, creation of the National Unit on Coastal Protection and Management (CNPGL) to coordinate coastal protection. Decree 2023-334 deals with reducing and managing risks from natural disasters,

[26] Authorities

such as floods and droughts. The decree discusses the monitoring-evaluation and coordination across arms of governments.

18. Benin's policy framework emphasizes the gender dimension of climate risks. Both the updated NDC and NAP devote separate sections on mainstreaming gender aspects into climate policies. As mentioned above, the government already enacted a gender-sensitive budget tagging, with this experience expected to support further progress on the integration of climate change into the budget.

19. While progress has been considerable, there are remaining challenges. The authorities have well-articulated plans, but there is a gap and lagging of implementation. Institutional responsibility for the climate change agenda is still spread across multiple public sector institutions, elevating the need for coordination. Climate change is not sufficiently mainstreamed, for example the Government Action Program (PAG II) 2021–26 is the main strategic guidepost for socioeconomic development, and climate change is not included as a transversal element. In addition, while climate change has been considered in some sectoral policies, this integration is often not supported by budgetary allocations or a monitoring framework. Many climate policy areas, such as water management or climate mitigation, are still fragmented with complex institutional arrangements, which would require further coordination and harmonization. There is also scope to better incorporate climate considerations into public investment management as highlighted in the recent C-PIMA (Box 2).

Box 2. Summary of Key CPIMA Findings[1/]

A C-PIMA diagnostic (March 2023)[2/] highlighted challenges in the integration of climate considerations into public investment management (PIM). Conducted together with an update of the 2019 PIMA diagnostic, the C-PIMA pointed out that only some aspects of the Benin PIM system already adequately reflect climate change considerations (integration of climate change commitments into national and sectoral investment strategies, embryo of coordination mechanism at State level on climate-related investment, increased attention to disaster risk management).

The institutional framework for PIM does not yet consider climate change, especially in the project evaluation and selection phases. In this respect, the 2021 decree on PIM needs to be amended, and an appraisal methodology conducive to climate-smart investment projects designed and adopted. This will support both adaptation and mitigation efforts.

Coordination with other public actors (local governments and State-owned enterprises) on climate-related investment could also be enhanced. While communes are increasingly integrating climate change in their own planning tools, they could be incentivized to invest in climate-related initiatives through a reform of the allocation formula for State transfers. In the same vein, the key role of SOEs in accounting for climate change in their business model should be acknowledged and highlighted in the State ownership policy and associated budget documentation. This is particularly important, considering SOEs' high turnover (7 percent of GDP) and their presence in key economic and climate-sensitive sectors such as transport and energy.

Lastly, the asset management policy should deliberately account for climate resilience. Climate-sensitive maintenance policies are required to ensure that public assets can be used effectively all along their expected lifecycle.

[1/] Prepared by Claude Wendling (FAD).
[2/] IMF Country Report No. 23/367.

20. Despite the relatively low emissions, the government has explicitly identified mitigation as a priority. The mitigation measures outlined in the updated NDC focus on the highest GHG emitting sectors: agriculture; land use, land-use change and forestry (LULUCF), energy (including transport) and waste. The updated NDC sets out 10 percent decrease in greenhouse gas emissions by 2030 compared to a business-as-usual scenario. The plans for the energy sector include scaling up low-carbon power plants and lower energy demand by increasing energy efficiency in the transport and residential sectors. As mentioned above, the NDC also expects climate mitigation to bring economic and health benefits.

C. Climate Finance

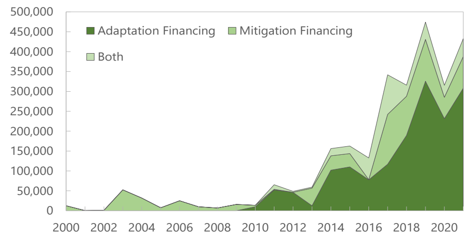
21. Financing needs for mitigation and adaptation are large. According to its Nationally Determined Contribution (NDC) from 2022, Benin will need US$1.8 billion to cover the adaptation needs, which are the priority of the government, and US$8.6 billion for mitigation. Of these, the unconditional, national contribution amounts to US$0.6 billion for adaptation and US$5.1 billion for mitigation. Thus, Benin is seeking US$4.7 billion in additional financing (this number doesn't include the cost of social protection and the possible savings from a fossil fuel subsidy reform). However, the AfDB stresses that the financing needs in the NDC appear to be underestimated. Benin's cumulative needs, over the period 2020-2030, are estimated between US$13.2 and US$14.3 billion to enable the country to respond effectively to the effects of climate change (AfDB, 2023). While Benin has been successful in raising external financing—including through innovative financing mechanisms—the needs outstrip the flows.

22. Yet, while international public climate-related development finance flows have increased substantially, they remain underwhelmingly low. Given Benin's vulnerability, most finance flows were directed towards adaptation efforts, about 70 percent of the US$433 million had climate adaptation as a goal—reflecting the priorities of the Beninese government (see Figure 9).[27] During the period 2017-2021 most finance flows in adaptation were directed towards water management, multisectoral goals (such as urban management, rural management, and disaster risk reduction), and agriculture. In terms of mitigation, more than 40 percent of the flows were directed to the energy sector. The gender aspect was also important in development flows: almost half of all flows in the past 10 years also target gender inequality.

23. Similarly, private climate finance in Benin—domestic and international—remains at its infancy. The overall volume of private-sector financing for climate action (mitigation and adaptation) in Benin is still very low (about 2.7 percent of total financing in 2020). Available figures (AfDB, 2023) demonstrate private sector investment of US$11.5 million in 2019-2020, mainly from large institutional investors and dedicated to adaptation measures (agriculture, infrastructure, energy, water, and sanitation). Lack of data to quantify the participation of the domestic private sector (businesses, households) in climate financing is a major challenge in identifying climate finance flows.

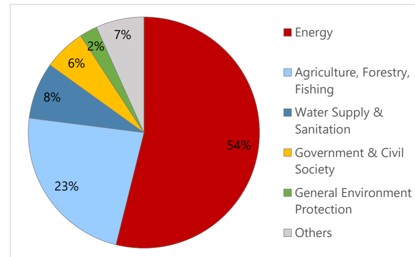
[27] The discussion relies on the OECD climate-related DAC data, which includes multilateral flows and official development assistance for which the objective of the flow was marked by the provider as climate mitigation and/or adaptation.

Figure 9. Public Flows for Mitigation/Adaptation, 2000-21
(thousands of 2021 USD)



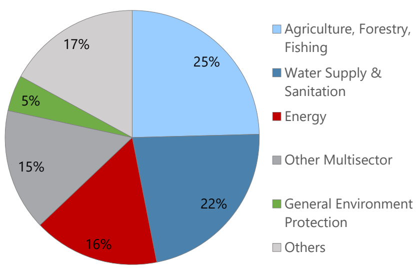
Sources: OECD DAC data

Figure 10. Mitigation Financing by Recipient Sectors, 2017-21



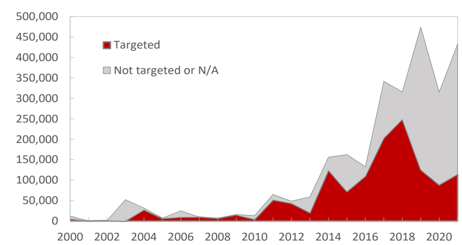
Sources: OECD DAC data

Figure 11. Adaptation Financing by Recipient Sectors, 2017-21



Sources: OECD DAC data

Figure 12. Climate-related Financial Flows Targeting Gender Inequalities, 2000-21 (thousands of 2021 USD)



Sources: OECD DAC data

24. **Benin sovereign has played a leading role in innovative financing in SSA.** Benin was the first sovereign to issue a Sustainable Development Goals (SDG) bond in SSA, which explicitly addresses many environmental goals—including climate and sustainable energy. The €500 million 12-year bond in 2021 was reportedly three times oversubscribed and attracted a "greenium" of 20 basis points. Although Benin's sovereign credit rating was below investment grade, the bond was able to attract international investors thanks to its detailed SDG Framework[28], costing analysis and monitoring and evaluation plans. It addressed increasing resilience to climate change and integrating climate issues in national policy, management, and planning. In addition, the bond also had multiple goals specifically targeting women and gender inequality (e.g., eliminating gender disparities in education by 2030, ensuring universal access to reproductive health and reproductive rights). Benin also benefited in 2022 from a Partial Credit Guarantee from the AfDB to mobilize in 2023 €350 million in SDB bond on the international capital markets on favorable terms. In 2023, the AfDB initiated technical assistance (US$800,000) for the design of one of the first green financing facilities in Africa at the *Caisse de dépôts et consignations du Benin* (CDCB)[29]. Benin has received additional financing from the World Bank in the form of a US$80 million Catastrophe Deferred

[28] Available here: Benin is committed (finances.bj)

[29] See : Benin, Côte d'Ivoire to premier African Development Bank's African Green Bank facilities | African Development Bank Group - Making a Difference (afdb.org)

Drawdown Option (Cat DDO). Effectively, the Cat DDO is a contingent financing line, that can be fully or partially disbursed in the event of a larger natural disaster or a public health emergency.

25. While there has been little progress on the private sector side, recent WAEMU-level initiatives show promises for corporate sustainable debt markets development. As of mid-2023, no corporate green (or sustainable) bond has been issued in Benin, and the overall uptake in the WAEMU also remains negligible (given shallow bond-dominated capital markets in the region). As part of efforts to develop sustainable debt markets in the region, WAEMU authorities[30] adopted in 2020 a guidance for the issuance of green, social, and sustainable bonds on the regional financial market.[31] However, the strong presence of sovereign financing through the WAEMU financial sector can crowd out the private sector by disincentivizing investors from considering other types of assets and discourage private issuers (World Bank CCDR, 2023). In addition, there are structural constraints that need to be lifted: relatively under-developed capital markets, limited access to the banking sector, high exposure of major Beninese banks to SOEs, and lack of adequate collateral. The WAEMU published a Green Bond scoping report early 2023, aiming at developing an active market for sovereign and corporate green bonds in the region.[32]

26. Advances made at the sovereign level offers promising avenues for private climate finance, with potential for Benin to be front-runner in the region. The main challenges that need to be addressed relate to the banking sector's capacity to develop innovative financial products that are tailored to climate needs, especially for SMEs. In this regard, the AfDB emphasizes the need for greater clarity on transition and adaptation planning and financing needs in Benin, as well as technical assistance to develop, monitor, report, and assess impact of financing measures. Green and blue loans and social bonds, which constitute a niche market, are still very little exploited, but constitute a major area of interest by country authorities. A promising avenue lies in the sovereign SDG framework. It is described as one of the most granular and robust in the SSA market, with targets meeting investor needs. The governance that results from the 2021 issuance (SDG Steering Committee and inter-ministerial coordination) shows capability, accountability, and dialogue with a wide range of stakeholders—including at the local level. Private investors underline the need to improve statistical capability to bridge data gaps, reinforce public policy evaluation, and improve the climate information architecture, including for target-setting purposes. The current initiative led by the AfDB (Green Finance Facility) with the CDCB, CDCB's equity investment strategy and the impetus within the administration for capacity development in the banking sector and the expansion of innovative instruments, are all viewed positively by investors.

27. The World Bank CCDR highlights the role of risk-sharing mechanisms in Benin to crowd in private sector investment. The report underlines the range of options to not only crowd-in new sources of finance, but also to leverage the more concessional financing to incentivize private sector investment. It emphasizes exploring ways to raise additional public funds through instruments that may be financially efficient, such as credit-enhanced sustainable or green loans,

[30] Regional Council for Public Savings and Financial Markets (*Conseil Regional De l'Epargne Publique et des Marches Financiers*).
[31] See WEST AFRICA: WAMU releases handbook for green bond issues | Afrik 21
[32] See WAEMU-Green-Bond-Scoping-Report-Updated-Eng-Final.pdf (fsdafrica.org)

sustainability-linked bonds, and others. These sources of financing could be used in a variety of ways, such as using them for liquidity backstops for climate-focused projects and to incentivize private sector investments—for instance in the energy sector.

D. Development Partners

28. **Benin has worked closely with development partners including multilateral financial institutions, NGOs, and bilateral partners toward its climate goals.** World Bank and EU institutions and other countries have been a major source of concessional financing and capacity development.

29. **The most recent Development Policy Operation (DPO) of the World Bank has an explicit focus on increasing inclusive and resilient growth.** The DPO has multiple climate-related triggers including strengthening social safety nets for vulnerable population, urban planning code to decrease exposure to climate-related hazards, comprehensive policy to manage coastal risks, and strengthening disaster risk management. These climate-related triggers are part of the larger aim of the DPO that seeks to foster the private sector development, by for example updating the PPP law and improving investment climate. In addition, as mentioned above, following the Bank's risk layering approach Benin has received Cat DDO—which would complement the disaster fund, FONCAT, by providing finance for rarer, higher severity events. The DPO also seeks to complement other World Bank programs.

30. **Benin has several programs with the World Bank aimed at increasing resilience to climate change.** There are two World Bank active programs specifically addressing urban resilience against climate risks in Benin (Stormwater Management and Urban Resilience Project, and the Building Resilient and Inclusive Cities Program). Addressing issues related to deforestation, the Gazetted Forests Management Project improves the integrated management of targeted forests, to increase access to fuelwood produced sustainably, and to strengthen selected non-timber forest product value chains for forest-dependent communities. Relatedly, the Bank is looking to increase productivity and market access for selected agri-food value chains through Agricultural Competitiveness and Export Diversification Project. Recognizing the rapidly growing emissions from transport, the Grand Nokoué Sustainable Urban Mobility Project is planned to contribute to decarbonizing the urban transport sector while expanding urban mobility.

31. **Benin is working closely with European Union and the Millennium Challenge Account on improving the energy access while scaling up renewables.** The European Investment Bank is deploying off-grid solar power systems for rural households which lack access to reliable energy, thereby promoting both electricity access and climate mitigation goals. The Millennium Challenge Account has been working with the government to modernize grid infrastructure, improve service reliability, so the power grid will accommodate the rapidly increasing demand. The World Bank is also active in this area through the Benin Electricity Access Scale-up Project that aims at supporting the increase access to electricity services, including through more resilient networks.

32. Development partners are also actively supporting the Beninese water sector. Netherlands is the most active in this area and their intervention focuses on improving resource awareness, data availability, and capacity development in the operation and maintenance of water infrastructure to support the Beninese government's goal of providing universal access to drinking water by 2030. The European Union and Japan also have projects in Benin, with focus on sanitation and drinking water supply, respectively.

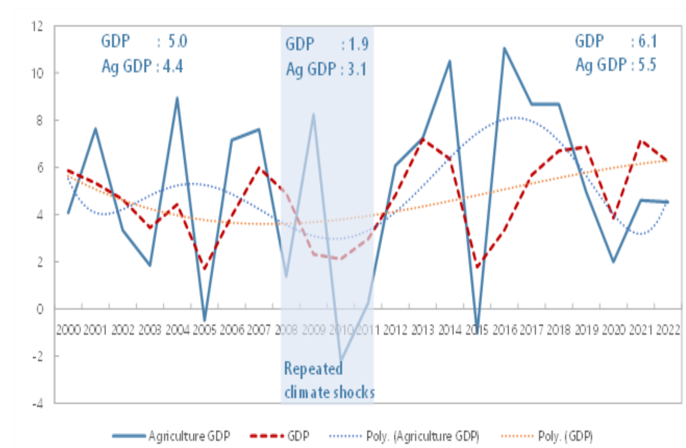
33. Development partners are also involved in projects addressing disaster response and coastal protection. The most recent World Bank DPO has a disaster risk finance component, as discussed above, and had and prior action on strengthening disaster risk preparedness, financing and response through the adoption of a decree. Number of recent decrees are addressing coastal erosion—as mentioned above—, which were also prior actions in the recent World Bank DPO. This is in addition to the World Bank engagement through the West Africa Coastal Areas Management Program (WACA). Moreover, the African Development Bank is involved in modernizing and increasing the resilience of the port of Cotonou to climate risks.

Annex IV. Policy Lessons From DIGNAD Simulations[1]

This annex draws lessons from the IMF-DIGNAD (Debt, Investment, Growth, and Natural Disasters) model to demonstrate the consequences of climate change vulnerability in Benin and the impact of investing in ex-ante adaptation on output growth and public debt.

1. The model is calibrated to the Beninese economy with initial values set according to data available at end-June 2023 and steady states values reflecting historical average, excluding the COVID period 2020-2021. The DIGNAD model is simulated for a hypothetical disaster lowering GDP by 4 percent in 2026-27—a year after the completion of the ongoing EFF/ECF arrangements. The scale of the impact of the natural disaster has been calibrated based on the recently conducted World Bank's CCDR findings where the cost of inaction was assumed around 4-4.6 percent of GDP over 2026-27, under a plausible but pessimistic scenario.[2] While this shock seems to be severe, historical data suggest that vulnerability to climate change is very high in Benin, notably during the period 2008-11 marked by repeated and frequent natural disasters. For instance, GDP was around 2 percent in 2009, 4 ppt lower than level recorded in 2008, as Benin was struck by a severe storm and two riverine floods caused by continuous rainfall and opening of Nagbéto dam in Togo (Emergency Events Database, EM-DAT). In addition, overall GDP during 2008-11 was on average 3 ppts lower than medium term growth estimated around 6 percent (Figure 1). Based on a recent costing exercise conducted after the floods occurred during the 2022/23 agriculture campaign, the impact was evaluated at 190 billion CFA francs (almost 2 percent of GDP), affecting 40 out of 77 communes (200 000 people) and causing 60 deaths, 10 meters of sea level rising in the Niger River basin; around 61 000 hectares flooded of which more than 28 000 ha destroyed.

Figure 1. Growth exposure to climate events, 2000-22



Sources: Beninese authorities and IMF staff calculations

2. To illustrate the macro-fiscal implications, the model is simulated under three different scenarios**.** The DIGNAD model distinguishes between standard infrastructure and adaptation/resilient infrastructure, with the latter more robust to climate-induced shocks but costly (20 percent) resulting in higher public debt. The relationship between growth and debt is assessed

[1] Prepared by Hicham Bennouna (AFR), with Azar Sultanov (RES) support.

[2] GDP is expected to decrease from 3.8 percent in 2026 to 4.1 percent in 2027 and from 4.5 to 4.8 percent under Dry/hot and Wet/warm scenarios, respectively. CCDR considers the cost of inaction to increase over time to up to 17 percent of GDP loss by 2050.

under different financing strategies (external concessional, external commercial, regional market, fiscal instruments), while accounting for inefficiencies in public investment (Table 1).

- **Baseline scenario:** The level of standard capital infrastructure investment in this scenario is calibrated around 5 percent of GDP, in line with historical average during the period 2017-19. The initial values of public debt levels were calibrated based on 2022 levels, where total debt rose to 54 percent of GDP. Public domestic debt and public concessional debt were respectively calibrated around 16 and 38 percent of GDP, while public external commercial debt and grants are kept around 0 percent of GDP. Public investment efficient parameter (PIE) was calibrated around 0.58 based on the recent C-PIMA findings. PIE increased sharply compared to a score of 0.50 in 2020 PIMA, a strong performance compared to WAEMU peers and SSA countries scoring respectively 0.39 and 0.46. The baseline scenario assumes no policies changes following the natural disaster shock in 2026.

Table 1. Benin: Financing Strategies Under Alternative Scenarios
(percent of GDP, cumulative 2024-25)

	Grants	Concessional Debt	Public external commercial debt	Public domestic debt
S1 (Baseline)	0.0	0.0	0.0	0.0
S2 (Adaptation Only)	0.3	1.0	1.5	1.2
S3 (Adaptation & PIE)	0.3	1.0	1.5	1.2

Sources: IMF staff calculations.

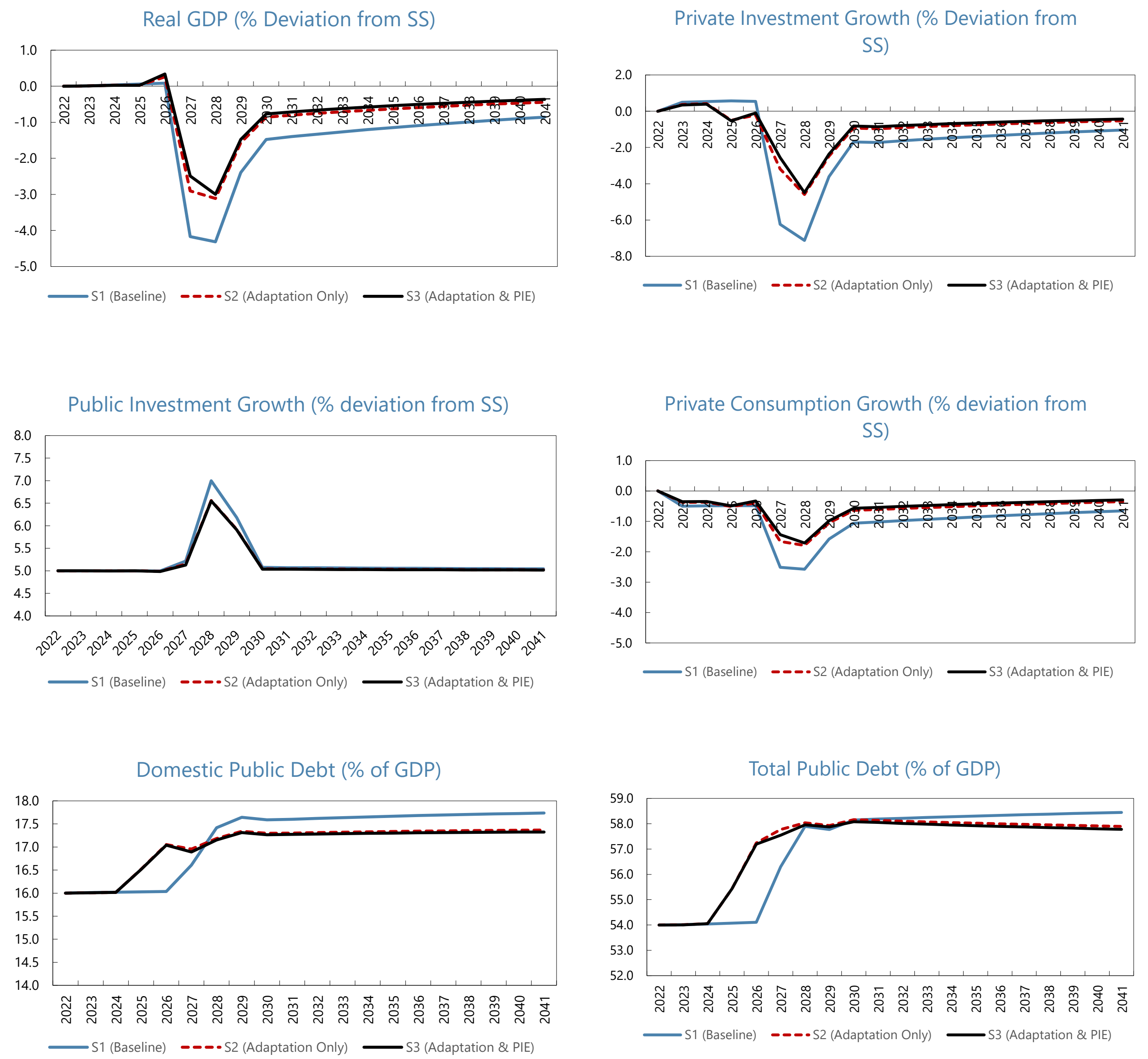
- **Adaptation scenario:** Consistent with the medium-term capital investment under the EFF/ECF program, this scenario assumes an increase in overall investment infrastructure to reach 7 percent of GDP per year relative to the baseline scenario over the period 2024-25, of which 2 percent of GDP is allocated toward physical infrastructure designed to withstand the climate shock. The adaptation investment is expected to be financed through concessional public borrowing of about 1 percent of GDP corresponding to the RSF request amount (4 disbursements until 2025). Consistent with debt sustainability analysis from June 2023, external commercial debt is expected to increase by 1.5 percent of GDP in 2025 while grants increase by 0.3 percent of GDP over 2024-25. Finally, public domestic debt will cover the remaining fiscal gap (0.5 percent of GDP).

- **PIE scenario:** This scenario assumes an additional adaptation investment of 2 percent of GDP over the period 2024-25 compared to the baseline following the same financing strategy as in the adaptation scenario (1.5 external, 1 concessional, 0.3 grants and 0.5 domestic), combined with an improvement of public investment efficiency (PIE) of 20 percent. Improved PIE considers reforms including those related to climate PIMA and green PFM allowing the initial capital to transform in additional tangible climate resilient infrastructure.

3. **Simulation results suggest that frontloading investment in adaptation infrastructure** could **support Benin's economic green recovery and mitigate the negative impact of natural disasters** (Figure 2). Investing in more robust infrastructure results initially in higher public debt (adaptation and PIE scenarios), however, it improves the resilience of the economy, lowers post-disaster reconstruction costs, and reduces public debt buildup in the medium term. In addition, enhanced reforms to improve the efficiency of public investment raises the resilience of the economy to shocks while lowering implementation costs and lessening the growth-debt tradeoff for

adaptation investment. Given the limited fiscal space, the initial increase in public debt can be mitigated by securing private financing as well as more concessional financing while advancing PIM reforms notably by mainstreaming climate change into the overall PIM legal framework to ensure efficient selection, execution, and maintenance of investment projects.

Figure 2. Simulation Results Using DIGNAD Model



Sources: Beninese authorities and IMF staff calculations.

Appendix I. Letter of Intent

Cotonou, November 28, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Georgieva:

I am pleased to inform you of the significant strides we continue to make in the implementation of our economic reform program supported by the IMF through the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). We met all the quantitative targets at end-March and end-June 2023, and implemented all structural benchmarks agreed with Fund staff.

The year 2023 began on a positive note, with robust economic growth in the first half of the year. Unfortunately, our country now faces two new major shocks with substantial socioeconomic implications: (i) the sharp increase in fuel prices in Nigeria and a major adjustment of exchange rate policy by the new Nigerian administration; and (ii) the closure of the border with Niger as a result of the economic and financial sanctions imposed by the Economic Community of West African States (ECOWAS) following the coup in that country. We believe that, with the pursuit of prudent macroeconomic policies and sustained implementation of reforms supported by the IMF, we will be able to limit the impact of these shocks to approximately 0.4 percent of GDP in 2023. Similarly, we will continue to pay close attention to the effects of these shocks on [the population], as well as on economic activity and the financial sector. On the social front, the acceleration of the ongoing rollout of the social registry will enable us to extend its use to all our social assistance programs, including the Insurance for Human Capital Development (ARCH), and to mitigate the effects of the repeated shocks on the population.

I am pleased to acknowledge the catalytic role that our economic reform program supported by the Fund has played, as evidenced by the mobilization, beyond expectations, of external resources in the form of budget support, including the resumption of this form of financial support by some development partners. In this context, we intend to take advantage of the flexibility built into the program to increase social spending.

The 2024 Draft Budget Law that we have submitted to Parliament is set to pursue the ongoing fiscal consolidation effort, underpinned by revenue mobilization drawing on our newly developed Medium-Term Revenue Strategy (MTRS). We also remain committed to efficiency in public spending, which includes containing the budgetary cost of fuel subsidies.

Benin has been facing climate change shocks with substantial socioeconomic impact that may jeopardize our achievements over recent years. Accordingly, we have made the climate change an absolute priority in our development strategy, including through the development of a national policy for the management of climate change, that covers both adaptation and mitigation. We will be relying on the IMF's support under the newly established Resilience and Sustainability Facility (RSF) to support these ongoing efforts. The mobilization of private capital for climate finance will be a key area of focus in the context of the RSF in the months and years ahead, building on initiatives underway.

Against this backdrop, we are requesting access under the Resilience and Sustainability Facility in a total amount of SDR 148.56 million (120 percent of our quota) to be disbursed as budget support. The RSF will support the government’s ongoing efforts to address the pressing challenges of climate change and to strengthen the resilience of the economy and the population in general. In particular, it will support the implementation of new reforms designed to provide the government with appropriate tools to incorporate climate issues into public policies and to strengthen the climate information architecture to promote private climate finance. The mobilization of resources in the form of grants will also be a focus to strengthen the government’s capacity to take action to respond to successive crises.

The government trusts that the measures and policies outlined in the Memorandum of Economic and Financial Policies (MEFP, Attachment I) are adequate to achieve the objectives of its program. It will apply any additional, appropriate measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in this Memorandum, in accordance with rules of the IMF applicable to this type of consultation.

We will carry out the commitments outlined in the MEFP, and we agree to provide the IMF with information on implementation of the agreed measures and program execution, as provided in the Technical Memorandum of Understanding (TMU, Attachment II). In light of the level of program implementation to date, as well as the commitments presented in the MEFP, the government requests the conclusion of the Third Review under the Extended Fund Facility and the Extended Credit Facility, the disbursement of SDR 101.58 million (equivalent to 82 percent of Benin’s quota), of which SDR 67.72 million for EFF and SDR 33.86 million for ECF and the approval of the Resilience and Sustainability Facility in a total amount of SDR 148.56 million (120 percent of Benin’s quota) to be disbursed as budget support.

To implement these priorities and support its credibility with the international community and Benin's population, the government intends to maintain a productive relationship with its development partners and various stakeholders. To that end, we shall remain closely engaged with the IMF in support of our strategy to promote growth through investment in human capital and infrastructure.

In line with the government's objective of promoting transparency, we consent to the publication of this letter, its attachments, and the staff report in connection with our request for support.

Sincerely yours,

/s/

Romuald Wadagni
Minister of State, Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies (MEFP)
2. Technical Memorandum of Understanding (TMU)

Attachment I.Memorandum of Economic and Financial Policies (MEFP)

BACKGROUND

1. Our economic reform program, supported by the Extended Fund Facility (EFF) and Extended Credit Facility (ECF), has begun to yield tangible results at the start of its second year. Its successful implementation to date is allowing us to strenghten the resilience of our economy in face of multipe shocks. However, since the second half of this year, Benin has been facing two new shocks. The closure of our border with Niger in July 2023, amidsts regional sanctions following a coup in that country is affecting transit trade. Moreover, although the new positioning of our economic policies toward Nigeria represents an opportunity for Benin in the medium and long term, it is not without challenges in the near term.

2. On the fiscal front, following a period of budget flexibility in 2020-2022 to accommodate multiple shocks, fiscal consolidation is underway and is set to continue in the 2024 draft budget law submitted to Parliament. The quantitative indicators, targets and structural benchmarks under the EFF/ECF for end-March and end-June have been fully met, by a comfortable margin in some cases.

3. We have requested IMF support for our ambitious climate agenda, complementing the current program in strengthening our country's socioeconomic resilience. We seek Fund support via its recently created Resilience and Sustainability Facility (RSF). We are confident that the RSF will support our current efforts and create a framework that can help catalyze other climate financing.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. Recent regional developments are generally expected to take a toll on economic activity in 2023.

- Following sustained economic growth in the first half of 2023 (6.3 percent), driven by trade, transport and agro-industry, economic activity is expected to slow by 0.4 percentage point vis-à-vis the forecasts in the 2023 budget law mainly as a result of the Niger border closure. A growth rate of 5.6 percent is therefore expected in 2023 under the program, compared to an initial forecast of 6.0 percent from an estimated 6.3 percent in 2022. Although this level of growth is lower than initially forecasted, it is still robust and reflects the strengthening resilience of the Beninese economy. It will be driven by all sectors, but particularly the secondary sector. The structural transformation of the Beninese economy, benefiting to the industrial sector, will be supported by new operators joining the GDIZ special economic zone.
- Inflation is expected to reach 3.7 percent in 2023 under the program, against an initial forecast of 3.5 percent, owing to the sharp increase in prices of smuggled gasoline (*kpayo)* following the upward adjustment in fuel prices in Nigeria, mitigated slightly by lower food prices. This increase was immediately passed through to transport prices resulting in a general increase in the cost of

households' consumption basket. The impact was mitigated by steps undertaken by the government to ensure coverage of pump stations in large urban areas and facilitate their supply of fuel. These actions helped to contain the effects of speculation observed in the informal sector.

- A slight improvement in the current account is expected in 2023 owing in part to slowing imports and also to higher international cotton prices, which should partially offset the drop of exports resulting from weak harvest in 2022-2023.

5. The medium-term economic outlook remains robust. Economic growth should stabilize at its potential of 6 percent, driven primarily by the expansion of the Port of Cotonou, continued strengthening of the industrial sector, the acceleration of large infrastructure projects under the 2021-2026 Government Action Program (PAG), and the improvement in the business environment.

6. This outlook remains subject to downside risks.

- Transit activities could decline further if the border closure with Niger is protracted. The fuel subsidies reform in Nigeria is expected to result in transitional costs that could have socio-economic implications.
- The continued deterioration of the security situation in the Sahel creates the risk of a resurgence of terrorist attacks from neighboring countries, which could lead to worsening food insecurity and trigger social tensions.
- Benin also remains vulnerable to the effects of climate change, such as recurring floods and droughts.

CONTINUING FISCAL CONSOLIDATION TO SAFEGUARD DEBT SUSTAINABILITY

We remain committed to our fiscal consolidation path, underpinned primarily by tax revenue mobilization , informed by the medium-term revenue strategy developed with Fund support. Some measures in the strategy have already been included in the 2024 draft budget law, to initiate its implementation. Moreover, we will pay particular attention to crisis support measures, the gradual elimination of which will create fiscal space while safeguarding debt sustainability.

Budget execution as of end-June 2023

7. We have met all the quantitative targets under the EFF/ECF at end-June 2023 and will continue to execute the budget in a prudent manner. The basic primary balance, net domestic financing and the ceiling on new external contracted debt have all been met, by a comfortable margin in some cases (see Table 1).

- Tax revenues at end-June 2023 were above the forecasts in the budget law. This improvement reflected solid collection levels for corporate and individual income taxes and taxes on goods and services, which continue to benefit from the reforms undertaken since 2016, particularly the implementation of electronic processes for the administration of the various taxes (tax certificates, tax receipts, the electronic issuance of property titles and property tax payments, etc.).
- Public expenditure increased substantially (+14.4 percent) from its level in June 2022, in line with the restructuring of the public expenditure framework resulting from the second review of the program. This improvement is based in part on the level of execution of transfers as social

measures were strengthened and on capital expenditures, particularly those financed by external resources.

- The fiscal deficit at end-June 2023 stood at CFAF 349.3 billion and the basic primary balance reached CFAF 52.1 billion, a distinct improvement vis-à-vis the target. On the financing side, the issuance of an SDG loan with a partial guarantee by the African Development Bank (AfDB) raised €350 million.

Execution of the 2023 budget

8. In line with the EFF/ECF forecasts, the fiscal deficit for 2023 is expected to be higher than initially indicated in the 2023 budget law owing to additional disbursements of budgetary assistance. The amount of budgetary assistance for 2023 is expected to be higher than initially forecasted, reflecting the reactivation of financial support in the form of budgetary assistance by some donors after a pause of several years. As a result, we expect to take advantage of the fiscal deficit adjustment included in the Technical Memorandum of Understanding (TMU) under the EFF/ECF to bring the fiscal deficit from 4.3 percent of GDP to 4.5 percent of GDP, with the potential to reach 4.7 percent of GDP in case other budget support is mobilized. This flexibility will enable us to implement more gradual fiscal consolidation and open up fiscal space to strengthen social spending targeting vulnerable households, particularly to mitigate the impact of the recent shocks**.** To ensure tax revenue mobilization in the amounts needed to implement our public policies in 2023, necessary measures will be taken to maintain and improve the upward trend in tax revenues. In this sense, the increase in formal gasoline sales, following the rise in smuggled gasoline prices, together with the upward adjustment of 30 FCFA pump prices should generate additional tax revenues. These should help to offset and further consolidate revenues, despite the moderate impact on revenues from the prolonged closure of the border with Niger. As well, the reform measures already under way will be enforced.

2024 budget law

9. Fiscal consolidation is set to continue in the 2024 draft budget law submitted to Parliement, to bring us into line with the West African Economic and Monetary Union (WAEMU) convergence criteria. The fiscal deficit target is thus set at 3.7 percent for 2024. The deficit will subsequently be brought down to 2.9 percent in 2025, slightly below the current WAEMU norm of 3 percent of GDP. Fiscal consolidation will be underpinned primarily by tax collection and a gradual reduction in expenditures undertaken in response to the shocks as well as enhanced efficiency in public spending. This strategy should enable us to maintain adequate fiscal space for social spending.

10. Revenue mobilization in the medium term remains the cornerstone of our reform program. This will be informed by our Medium-Term Revenue Strategy (MTRS), recently developed following a participatory process aimed at ensuring ownership of the strategy by stakeholders, particularly the private sector, civil society, NGOs, etc., **(structural benchmark met as at end-September 2023)**. The MTRS has three main pillars: (i) promotion of taxpayer compliance and expansion of the tax base; (ii) consolidation of confidence in the tax/customs system and its administration by ensuring equal tax treatment; and (iii) enhanced governance of the revenue agencies. We will leverage these reforms to inject a new dynamism into tax collection. Particular emphasis will be placed on streamlining tax expenditures, in line with the WAEMU directives and in accordance with the strategy. Several studies are planned for 2024 to assess the socioeconomic impact of some exemptions with a view to reducing them, including the exemption on new vehicles. Similarly, we have included as series of tax measures in the 2024 budget law to build on our current robust performance.

Text Table 1. Estimated Additional Yields from Tax Measures in 2024
(in FCFA billion)

	2024
Net Additional Yields Relative to the Previous Year (A+B+C)	**64.3**
A. Domestic taxation, *of which*	**80.5**
New tax policy measures	**19.2**
Expansion of standardized invoices to retail businesses	10.0
Exemption from the late filing penalty for taxpayers in the informal sector who voluntarily file returns for the first time to regularize business conducted in previous tax years	0.1
Exemption from the late penalty for taxpayers liable for the single property tax who pay the entirety of their	0.7
Amendment of Article 66 of the General Tax Code to introduce withholding at source for the tax on profits for partners in tax-transparent companies	0.5
Amendment of Article 238 of the General Tax Code to give businesses in the restaurant sector the option of paying VAT on their actual profits	0.9
Introduction of remote procedures in the Cotonou small business centers (TPS + TFU)	4.0
Establishment of a 5 percent levy on the transactions of individuals operating on the e-MECeF platform	3.0
New administrative measures	**21.5**
Removing payroll tax exemptions for public agencies (elimination of points 1 and 2 in Article 192 of the General Tax Code)	13.0
Conclusion of double taxation agreements by developing a strategy for formalizing the double taxation policy to guide future negotiations	2.0
Continuation of efforts to tax the informal sector	2.0
Effective taxation of digital giants	2.0
Effective implementation of the current simplification of property taxation and effective use of the single tax identification number (IFU) to collect property taxes	2.5
Clearance of domestic tax arrears	**49.9**
B. International taxation measures, *of which*	**53.8**
Extension to new goods of the application of transaction values	16.0
Improved control of customs valuation	12.0
Clearance of custom duties arrears	**25.8**
C. Revenue-reducing effects	**-70.0**

11. Improving the effectiveness of public spending remains a priority, with several levers:

- ***Reform of oil product subsidies.*** IMF technical assistance scheduled for January 2024 will help to inform modalities for eliminating energy subsidies and improving the fuel pricing system, bearing in mind the specific characteristics of the fuel market in Benin (¶25) ***(RSF reform measure 11 for end-October 2024)***. Meanwhile, we remain committed to containing the budgetary cost of fuel subsidies.
- ***Public* investment *efficiency.*** From end-December 2023, we will systematically publish all criteria for the assessment and selection of major public investment projects and the related feasibility study reports ***(structural benchmark for end-December 2023)***.
- We will adopt a phased approach to the execution of our public investment program and further reprioritize spending as needed as part of our contingency planning.

12. The medium-term global financing strategy for 2023-2026 will continue to emphasize prudent management of borrowing and proactive debt management to ensure a moderate risk of debt distress. To control borrowing costs and refinancing risks, we will continue to give priority to concessional external financing and aim to extend the maturity of financing raised on the regional market. We will also diversify the sources of financing using innovative financing options such as those emphasizing environmental, social and governance (ESG) criteria. We plan to continue our strong mobilization of additional budgetary assistance from our development partners with particular emphasis on debt management transparency.

13. We will continue to improve public financial management, building on the recommendations of the 2021 Fiscal Transparency Evaluation, the Fiscal Safeguards Review, the Public Invesment Mangement Assessment (PIMA), and Climate Public Investment Management Assessment (C-PIMA). With technical assistance from the IMF, we have prepared a statement with a quantitative analysis of fiscal risks in key areas, which has been included in the documentation for the draft 2024 budget law (***structural benchmark for end-October 2023***). **Moreover, we remain committed to systematically publish the final validated financial statements of public enterprises.**

- **In terms of cash flow management, we will, with IMF technical assistance, strengthen the technical and operational framework for the Treasury Single Account (TSA).** Currently, there are 1,511 bank accounts held by public agencies, of which 1,402 do not have a waiver authorization from the Ministry of Economy and Finance. We are committed to closing at least half of these accounts and repatriating the balances to the Public Treasury by end-June 2024 at the latest (***structural benchmark for end-June 2024***).

Strengthening Social Protection Mechanisms

14. To accelerate progress toward the achievement of the Sustainable Development Goals (SDGs) we will improve the implementation of social measures benefiting vulnerable segments of the population. We will pursue the operationalization of the Single Social Registry (RSU) (¶25) ***(RSF reform measure 12 for end-October 2024)***.

15. We will enhance the sustainability of the Integrated National School Feeding Program (PNASI) and expand its coverage. The draft law on school feeding is currently under review by the National Assembly. This draft law establishes the governance and management framework for the program and defines the roles and responsibilities of those involved, food security measures, financing mechanisms, accountability conditions and infrastructure standards. we aim to extend the PNASI coverage from 75 percent to 100 percent by school year 2025-2026, while ensuring its robustness and improving food quality.

Improving Governance, Transparency, the Rule of Law and the AML/CFT Framework

16. In line with the government's commitment to the consolidation of good governance and the rule of law, which constitute the first pillar of PAG-II, we have prepared a draft action plan at the interministerial level to implement the recommendations of the IMF governance assessment. Consultations on this plan will be held with the public, civil society in particular, with a view to its finalization. In the meantime, some reform measures from the governance assessment recommendations are already being implemented, specifically the entry into operation of the Commercial Court of Appeal **(structural benchmark for end-November 2023)** and the land Court. Consultations with IMF staff are ongoing to further clarify the methods of bringing the High Commission for the Prevention of Corruption (HCPC) into operation by end-June 2024 through a strengthening of its legal framework to guarantee its independence and powers ***(structural benchmark for end-June 2024).***

17. We will continue the reforms to ensure transparency of public procurement and auditing.

- ***Public*** procurement***.*** After completion of the preliminary studies in December 2022, we plan to implement the necessary actions planned as part of the e-Procurement by end-December 2024 at the latest.
- ***Auditing.*** To fully align the Audit Court with international best standards, an internal committee to monitor implementation of the recommendations of its audits will be created within the Audit Court and the resources needed to bring it into operation will be provided ***(proposed new structural benchmark for end-February 2024)***.

18. The government is demonstrating its commitment at the highest levels to increasing the effectiveness of the AML/CFT arrangements in Benin, in line with the recommendations of the Mutual Evaluation Report carried out in 2019.

- The National Financial Information Processing Unit (CENTIF) has conducted training and awareness-raising activities with regulated institutions, local authorities, customs receivers and police officers in border police stations. It has also prepared three risk assessements: (i) the assessement of the risks related to the financing of terrorism; (ii) the assessement of the terrorism financing risks involving the misuse of nonprofit organizations (NPOs); and (iii) the ML/TF risk assessement for the real estate sector in Benin. Moreover, ML/TF risk assesements on the absue of legal entities and of virtual assets and virtual asset service providers are being conducted and should be completed by end-June 2024 at the latest.
- we have (i) adopted the draft law on the combating of money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction on October 31, 2023; and (ii) designated the National Assets and Lands Agency as the AML/CFT supervisory authority for the real estate sector and amended its regulations during the Council of Ministers held in October 31, 2023.
- To reduce the risks of money laundering identified in the real estate sector following the sectoral risk assessement, we will establish by end-June 2024 a legal framework to collect and verify information of landholders at the time of transfer of property and to publish information on beneficial ownership on a government website ***(proposed new structural benchmark for end-April 2024)***. Similarly, we will also, by end-September 2024, adopt an action plan to implement this legal instrument, including to establish deadlines for notaries to start the collection and verification of information on beneficial ownership and regular publication of this information.

Accelerating the Structural Reforms

A. Resilient and Inclusive Financial Sector Promoting Private Sector-Led Growth

19. We will step up our vigilance to strengthen the stability of the financial system in light of the recent regional shocks. The process for bringing the two banks that do not respect the regulation on the share of core capital in minimum capital into compliance is on track. One of the banks has successfully completed its recapitalization since December 2022, bringing core capital into compliance with the prudential regulations. In its 134th session held on July 18, 2023 the WAMU Banking Commission issued a favorable opinion on the request for prior authorization for amendment of the shareholdership of the second undercapitalized bank. This operation should allow this institution to be in compliance with the prudential norme by end-December 2023. Moreover, it is expected to bolster the core capital by a supplementary capital increase of CFAF 10 billion between 2024 and 2025. Banking supervision will be stepped up, with particular attention to the bank (accounting for less than 4.65% of total banking secor's assets at the end of June 2023), which has recently failled to meet the regularty norm. We will remain attentive to the potential risks to the soundness of the financial sector resulting from the financial sanctions against Niger, particularly for banks with a high exposure to transit activities and sovereign risk in Niger.

20. We will continue our efforts to increase private initiatives, particularly by establishing a one-stop shop for investors that will include an improved version of the business creation platform and digitization of the processes for licensing under the investment code, licensing in economic zones, export assistance, and assistance under the Agricultural Competitiveness and Export Diversification Project (PACOFIDE). Moreover, we will continue to move ahead with the modernization of the administration of public property and lands, through the digitalization of land titles requests, the full coverage of Cotonou by the property registry, and the establishment of a mechanism for systematically updating property transactions **(*proposed new structural benchmark for end-April 2025)***. As well, we will implement the 2023-2027 National Financial Inclusion Strategy adopted in March 2023 by creating a permanent secretariat and specifying its compsition and powers. The secretariat will develop the tools needed to monitor the financial inclusion actions and indicators.

B. Modernizing our statistics system

21. The availability of reliable data and their timely publication are essential for informing economic policy decisions. To improve compliance with the e-GDDS criteria, Benin undertakes to clarify the institutional framework for administering the National Summary Data Page (NSDP) and increase the technical, human and financial resources available to entities that are members of the National Statistics System (NSS). Moreover, to accelerate our adherence to the SDDS we will, with assistance from IMF staff, (i) deepen SSN participants' knowledge of the SDDS; (ii) complete a review of the SSN to identify the gaps between its current capacity and the SDDS requirements; (iii) establish a monitoring unit to track the regular publication of indicators; (iv) increase the financing of activities for the regular publication of indicators required under the standard and (v) regularly update the data dissemination platforms, including Open Data and NADA, which are accessible on the INStaD website, and ensure that the SDMX technology for the publication of data and metadata is modernized.

22. To this end, INStaD will help to step up the production of statistics in various key areas and improve their reliability and timeliness, particularly environmental and climate statistics and labor market indicators. INStaD will therefore support the ministry responsible for the standard of living as it overhauls its statistics system and plans to organize a basic survey to more regularly monitor labor market indicators. As well, with the help of financing obtained from the World Bank for the Project of the Harmonization and Improvement of Statistics in West and Central Africa (PHASAOC), Benin could have an effective national statistics production and coordination system for accelerated adherence to the SDDS.

Other Reforms to Improve Resilience to Climate Change

23. Increasing Benin's resilience to climate change is a key government policy concern. Using the available tools and legislative and regulatory frameworks, we will solidly anchoring the measures for adaptation and mitigation to climate change in public policies. We will specifically use the recent evaluations conducted with assistance from the International Monetary Fund and World Bank, including the C-PIMA assessment and the Country Climate and Development Report (CCDR), to identify wide-ranging reforms to mitigate and adapt to the effects of climate change. We have requested assistance from the IMF under the new Resilience and Sustainability Fund (RSF) to build the foundations for our climate reforms.

24. The government is firmly convinced of the need to include climate change concerns in the budgetary process and in public finance and public investment management.

- In this context, we will amend the regulatory framework governing public investment management (Decree 2021-586) to include climate issues in the various phases of the management of public investments, including identification, assessment, selection and ex post evaluation, and update the public investment manual adopted in September 2019 accordingly ***(RSF reform measure 1 for end-March 2024).***
- The government will by end-2024 adopt a methodology to include climate vulnerabilities in the policy for the maintenance of key infrastructure (roads, buildings) and will test this policy in three major sectoral ministries, ensuring that the allocation of appropriations for the maintenance of nonfinancial assets under the draft 2026 budget law (in October 2025) and the budget for the Road Infrastructure and Land Use Planning Company (SIRAT)/fiscal year 2026 is in line with this maintenance policy ***(RSF reform measure 2 for end-October 2025).***
- The government will issue an implementing decree for Law 2020-20 on public enterprises to establish the appropriate legal framework for the consideration of climate concerns and will publish a first annual report on public enterprises under Article 65 of this law, including an analysis of (i) the contribution of public enterprise strategies to the climate adaptation and mitigation efforts and (ii) the climate change risks that affect public enterprises ***(RSF reform measure 3 for end-October 2025).***
- The government plans to issue an implementing regulation for Decree 2020-495 to establish the list of budget documents to be produced each year and thus institutionalize the production of the budget briefing note on climate change as one of the annual budget papers and to operationalize the reform during the budget process for the preparation of the 2025 budget law, with the involvement of the Ministry of the Environment and representatives of the sectoral ministries ***(RSF reform measure 4 for end-October 2024).***

25. We will establish measures to enhance climate change adaptation and the resilience of the population.

- ***Water management.*** To improve water management, we will (1) adopt a revised decree on the National Water Board, which includes a mandate to monitor underground and surface water resources, and will provide the Board with sufficient human and financial resources to carry out its mission and (2) conduct a strategic evaluation of underground water resources and ensure the supervision and validation of this evaluation by the National Water Board ***(RSF reform measure 5 for end-April 2025).***
- ***Water pricing in urban areas.*** Water management efforts will continue with the institutionalization of a water pricing mechanism in urban areas based on the following parameters: (i) a pricing study; (ii) a transparent pricing structure that is in line with international best practices and (iii) a financial equilibrium model ***(RSF reform measure 6 for end-September 2024).***
- ***Local government.*** We will propose an amendment to the 2024 draft budget law establishing the principle of considering climate priorities identified by communities in the criteria for allocating transfers to local governments, whether they take place under the existing FADeC (Fund for the support for communal development) framework or the FIC (Communal Investment Fund) that will replace it, and simulate the implementation of this mechanism for the 2024 FADeC ***(RSF reform measure 7 for end-March 2024).***
- ***Social protection.*** We will include information on climate risk in the social registry, particularly for municipalities identified as being at high risk of flooding ***(RSF reform measure 8 for end-October 2025).*** Ultimately, individuals exposed to climate risks should be identified in the Single Social Registry (RSU) so that targeted aid can be channeled to them in case of catastrophe/need.
- ***Agriculture.*** The government will adopt a decree establishing an agricultural insurance regime leveraging existing programs (FNDA), including strategies to mitigate climate risks, with a minimum target for September 2025 of covering two key products among those identified in the feasibility study completed in May 2023 with the aim of benefiting at least 100,000 farmers ***(RSF reform measure 9 for end-September 2025).***
- ***Construction code.*** The Council of Ministers will adopt the draft law establishing the Construction and Housing Framework Law, incorporating technical standards that promote adaptation to future climate conditions, including with respect to scope and frequency of anticipated climate risks (heat waves), and promoting low carbon emission and climate resilient options for planning, technical design, maintenance and inspections, and will issue the necessary secondary legislation necessary for reaching climate objectives ***(RSF reform measure 10 for end-March 2025).***

26. The government will also continue to support efforts to mitigate climate change by implementing a comprehensive reform of the electricity and fossil fuel subsidies.

- To this end, we aim to build on the IMF technical assistance planned for January 2024 to introduce a comprehensive reform of fossil fuel subsidies including (i) the design of a simple tax structure structure taking account the specificities of Benin's local fuel market; and (ii) reform the pricing mechanism, in line with the conclusions of IMF technical assistance ***(RSF reform measure 11 for end-October 2024).***

- We will also design and adopt a comprehensive electricity tariff reform to remove electricity subsidies gradually and fully, and reflect cost-recovery levels, with the first phase to be implemented in 2025 ***(RSF reform measure 13 for end-January 2025)***.
- To mitigate the effects of this reform on vulnerable populations, we will (i) establish a compensatory mechanism using the RSU to limit the effect of the fuel subsidy reform on vulnerable groups; and (ii) adopt an implementation framework for the RSU which defines the the Management Information System (MSI) governance structure and provides detailed operational guidance, while ensuring adequate material, financial and human resources to the unit responsible for the operationalisation of the RSU ***(RST reform measure 12 for end-October 2024).***
- To promote the development and use of renewable energies, we will establish a connection cost policy that supports connections for the production of renewable energies. We will also commit to conducting regular evaluations on the flexibility of the grid and on issues related to the incorporation of renewable energies ***(RST reform measure 14 for end-May 2025).***

27. To facilitate the search for climate mitigation and adaptation financing opportunities by the private sector, we undertake to eliminate the obstacles to the development of renewable energies and improve the climate-related financial information architecture. This commitment is paired with our commitment to work in the coming months to improve cooperation between the authorities, CDC Benin, International Monetary Fund teams and the multilateral and regional development financing institutions to attract additional private climate investment in the context of the RSF pententialy through a blended finance instrument. To this end, we will enhance the climate financial information architecture by the adoption by way of decree (*arrêté*) by the Ministry of Economy and Finance, and subsequent implementation of two complementary frameworks: i) a climate-related taxonomy (reference framework for private sector climate investment) covering mitigation and adaptation needs across key sectors defining financing and climate-related targets and private financing instruments; and ii) a climate mitigation and adaptation data collection and dissemination mechanism, connected to the taxonomy, across key sectors for private companies and key economic infrastructures. This mechanism will be coordinated and implemented by the National Statistics and Demography Institute, requiring the adoption of an arrêté under the 2022 legal framework governing the Institute's missions. ***(RSF reform measure 15 for end-May 2025).***

28. We will allocate responsibilities for each reform measure across ministries to ensure effective and timely implementation. These include the MEF (public finance and public investment management, mobilizing private climate finance, fuel subsidy reform), MCVT (mobilizing private climate finance, building code), MEEM/SONEB (water management and water pricing), MIC (fuel subsidy reform), MASM/ANPS (social protection), MAEP (agriculture), MDGL (local government), MEEM/SEE (measures related to electricity tariffs and renewable energy).

Program Monitoring

29. The program monitoring will be based on performance criteria (Table 1), structural benchmarks (Tables 2), and reform measures (Table 3). The indicators and reporting requirements are defined in the attached Technical Memorandum of Understanding (TMU). The authorities will submit data and statistics to the IMF as set out in the TMU, as well as any other information that they consider useful or is requested by the IMF for program monitoring purposes.

30. The Fund-supported EFF/ECF and RSF programs will be monitored through joint semi-annual reviews by the IMF Executive Board. The semi-annual reviews under the EFF/ECF will be based on the performance criteria at end-June and end-December, and on the indicative targets at end-March and end-September. New quantitative performance criteria and indicative targets are being proposed for end-June and end-March 2024, respectively. The RSF reviews will be based on the evaluation of implementation of the reform measures set out in Table 3.

Table 1. Benin: Proposed Quantitative Performance Criteria and Indicative Targets, 2023-24[1]

	March 31, 2023			June 30, 2023				September 30, 2023	December 31, 2023	March 31, 2024	June 30, 2024	September 30, 2024	December 31, 2024
	Indicative target (IT)			Performance Criteria (PC)				IT	PC	IT	PC	IT	IT
	Prog.	Actual	Status	Prog.	Adj	Acutal	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]													
Basic primary balance (floor)[3]	3.8	115.7	Met	-1.6		52.1	Met	-97.6	-13.1	15.7	22.2	-25.6	87.4
Net domestic financing (ceiling)[4]	130	118.3	Met	205	204	-18	Met	372	348	204	258.2	347.7	152.3
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	620	103	Met	620		555	Met	620	620	620	620	620	620
C. Indicative Targets[2]													
Tax revenue (floor)	321.5	361.0	Met	694.5		745.2	Met	1,071.9	1,480.0	392.1	816.6	1,205.9	1,665.3
Priority social expenditure (floor) [6]	16.4	22.1	Met	50.9		55.7	Met	105.9	170.1	24.1	55.5	115.5	185.4

Sources: Beninese authorities; IMF staff estimates and projections.

[1] The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

[3] Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

[4] Includes on-lending from the BCEAO related to the IMF disbursement. If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement.

[5] Annual limit. Contracted debt as of Aug. 30. 2023

[6] Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures.

Table 2. Benin: Remaining Structural Benchmarks Under the Current EFF/ECF Arrangement, 2023–24

Reform area	Structural benchmark	Due date	Status
Revenue Mobilization	Develop a medium-term revenue strategy (MTRS).	End-September 2023	Met
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023	Met
Public Financial Management	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023	On track
Rule of law	Operationalize the Commercial Court of Appeal with staffing, funding, and equipment to help fill an important gap in Benin's judicial framework and promote greater transparency.	End-November 2023	Met
Anti-corruption	Operationalize the HCPC (*Haut Commissariat à la Prévention de la Corruption*) and strengthen its legal framework to ensure its independence and powers, in consultation with IMF staff	End-June 2024	On track
Public Financial Management	Update the list of bank accounts of public organizations before the end of August 2023 and close at least half of those subject to the obligation to deposit funds in the Treasury and not benefiting from an exemption authorization from the MEF, while repatriating the balances to the public Treasury, no later than the end of June 2024	End-June 2024	On track
AML-CFT	Establish a legal framework which requires the collection and verification of beneficial ownership information of landholders at the time of transfer of land and the publication of this beneficial ownership information on a government website	End-April 2024	**Newly proposed**
Transparency	Establish and operationalize a committee within the audit court to monitor implementation of its audit recommendations	End-February 2024	**Newly proposed**
Business climate	Extend the online land registry (e-cadaster) to completely cover the city of Cotonou, and systematically update land transactions in the e-cadaster	End-April 2025	**Newly proposed**

Table 3. Benin: RSF Reform Matrix

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Mainstreaming the climate agenda into the PFM/PIM processes.	**RM1. PIM Decree and Appraisal Methodology.** Government to amend the regulatory framework governing PIM (Decree 2021-586) in order to include climate concerns in the various stages of PIM, notably identification, appraisal, selection and ex-post evaluation, and to update accordingly the September 2019 P manual.	End-March 2024	C-PIMA	Possible FAD CD	Better alignment of public investment program with climate agenda. Increase in resilient, low-carbon economy and climate-resilient public investments, which will ultimately (i) reduce the frequency of disruptions of critical services, (ii) reduce maintenance and rehabilitation costs and (iii) align it with the country's GHG emission reduction targets.	
	RM2. Maintenance. Government to adopt by end 2024 a methodology to integrate climate vulnerabilities in maintenance policy for key infrastructure assets (roads, buildings) and to pilot this policy in three selected large sectoral ministries, ensuring that the funds allocated to maintenance of non-financial fixed assets within the 2026 draft budget (submitted in October 2025) and within the 2026 budget of Société des Infrastructures Routières et de l'Aménagement du Territoire (SIRAT) are determined on the basis of this maintenance policy.	End-October 2025	C-PIMA	FAD CD needed	Improved estimation and budgeting of maintenance requirements related to climate change. Improved delivery of public services thanks to increased quality of infrastructure.	

Table 3. Benin: RSF Reform Matrix (continued)

REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
RM3. State-Owned Enterprises. Government to adopt an implementing decree of Law 2020-20 on State Owned Enterprises to put in place an appropriate legal framework to integrate climate concerns and to publish accordingly a first annual report on SOEs (in the sense of article 65 of aforementioned Law 2020-20) including analysis of (i) the contribution of SOE strategies to climate adaptation and mitigation efforts (ii) the risks related to climate change affecting SOEs	End-October 2025	C-PIMA	Possible FAD CD	Enhanced transparency and integration of climate concerns in the strategy of SOEs, which play a significant role in major sectors of the Beninese economy (total turnover of FCFA 530 billion in 2020, notably for utilities, transport…) and whose investments are not carried by the State budget.	
RM4. Climate Budget Tagging. Government to adopt an implementing order of decree 2020-495 on the calendar for budget works to set the list of budget documents to be produced each year and henceforth institutionalize the production each year of a climate budget brief. Operationalize the reform starting with the budget preparation process for FY25, with involvement of Ministry in charge of Environment and with counterparts in sectoral ministries.	End-October 2024	C-PIMA	Possible FAD CD	Enhanced reporting and transparency on climate-related expenditures as well as improved integration of climate concerns in budget decisions.	

Table 3. Benin: RSF Reform Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Enhancing adaptation to climate change and strengthening the population's resilience.	**RM5. Water Resources:** (1) Adopt a revised decree of the National Water Council, which would include a mandate to monitor groundwater and surface water resources and equip the Council with sufficient human and financial resources to discharge its mission; and (2) Realize a strategic groundwater assessment and have the National Water Council Supervise and validate this assessment.	End-April 2025	CCDR	No	Strengthen governance of water resource management and in particular monitoring of groundwater, which will help address water scarcity (a key risk to agriculture, a critical socio-economic activity).	WB is strongly involved in the water sector and provides complementary support to governance reforms.
	RM6. Water Tariffs in Urban Areas. Institutionalize a mechanism for water tariffication in urban areas based on the following parameters: (i) a tariff study; (ii) a transparent tariff structure in conformity with international good practices and (iii) a financial equilibrium model.	End-September 2024	Possible FAD CD		Further enhance water resource management by providing incentives for conservation and ensuring optimal resource allocation.	WB is heavily involved in the water sector and may support this reform.
	RM7. Local Government: Government to propose an amendment to the 2024 budget law setting the principle of taking into account community-identified climate priorities in the criteria for allocation of transfers to local authorities, [whether they take place in the current framework of FADeC – Fund for Support for Communal Development - or within the framework of the new Communal Investment Fund that will replace FADeC], and simulate the implementation of this mechanism for the 2024 FADeC.	End-March 2024	CCDR / C-PIMA	No	Increase of public resources for climate-vulnerable communes allowing to better fund adaptation and mitigation projects in their communal development plans adopted in accordance with national strategies, thereby ultimately contributing to a local climate resilient infrastructure.	The KfW Development Bank (Germany), the EU and Belgium have all been involved in supporting local government and ongoing decentralization efforts in Benin, so would be well-placed to assist such a measure. The World Bank is implementing a Community Driven Development project in the northern part of Benin.

Table 3. Benin: RSF Reform Matrix (continued)

REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
RM8. Social protection. Integrate information on climate risks into the Social Registry (RSU), in particular for municipalities identified as being at high risk of flooding.	End-October 2025	WB (in process)	No	Enhance the shock-responsiveness of Benin's social safety net by developing a social registry that can facilitate provision of support to the extreme poor when a natural disaster occurs.	WB support as part of the Social Safety Net Program for Results (PforR)
RM9. Agriculture: Government to adopt a decree to establish an agricultural insurance scheme leveraging existing programs (FNDA), including climate risk mitigation strategies, with a minimum objective of covering by September 2025 two main products amongst the ones identified in the May 2023 feasibility study to the benefit of a minimum of 100,000 producers.	End-September 2025	CCDR FNDA / Swiss Development Cooperation Feasibility Study (May 2023)	No	Support vulnerable populations in building resilience to climate risk in a sector of major socio-economic importance	Swiss Development Cooperation can provide follow-up support as they have been involved in the feasibility study.
RM10. Building codes: Government to adopt in Council of Ministers a draft building code (*projet de loi portant loi-cadre sur la construction et l'habitation*) incorporating technical standards favoring adaptation to future climatic conditions, including with respect to expected climate-hazards' magnitude and frequency, and favoring low-carbon and climate resilient options for planning, technical design, maintenance and inspections, as well as requisite secondary legislation.	End-March 2025	CCDR	No	Strengthen resilience against floods, heavy rains and increased heatwaves, as well as enhance energy efficiency.	Complements ongoing WB work on urban planning and MCC efforts in the areas of energy efficiency.

Table 3. Benin: RSF Reform Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Supporting mitigation efforts	**RM11. Comprehensive fossil fuel subsidy reform:** including (i) the design of a simple tax structure taking into account the specificities of Benin's local fuel market; and (ii) reform the pricing mechanism, in line with the conclusions of IMF technical assistance.	End-October 2024	FAD TA (in process)	FAD TA (in progress)	Institutionalize fuel pricing in a way that systematically aligns domestic pump prices with international oil prices over the cycle. Enables mobilization of private climate finance by sending price signal to investors.	
	RM12. Social protection in relation to fuel subsidy reform. i) Establish a compensatory mechanism to limit the effect of fuel subsidy reform on vulnerable groups using the Social Registry (RSU); ii) adopt an implementation framework for the RSU which defines the Management Information System (MSI) governance structure and provides detailed operational guidance, while ensuring adequate financial, human, and material resources to the unit responsible for the operationalization of the RSU.	End-October 2024	FAD TA (in process) WB (in process)		Enhance Benin's social safety net by supporting the operationalization of the social registry and institutionalizing it to protect vulnerable groups and ensure social cohesion in implementation of subsidy reform (RM11).	The authorities will benefit from WB technical support in elaborating the RSU implementation framework and defining an adequate governance structure
	RM 13. Electricity tariff reform: Design and adopt a comprehensive and gradual electricity tariff reform to fully remove electricity subsidies and reflect cost-recovery levels, with the first phase to be implemented in 2025.	End-January 2025	CCDR	No	Remove electricity price subsidies that indirectly support fossil fuel emissions, and support progress toward the national objective of reaching a 20-30 percent renewable energy penetration by 2035.	World Bank also stands ready to provide some support based on their expertise on the electricity market in Benin.

Table 3. Benin: RSF Reform Matrix (continued)

	RM14. Support to renewable energy: Remove key obstacles to development of renewable energy (RE) by adopting regulations and decisions to (i) putting in place a connection cost policy supporting connection for RE generation and (ii) committing to carrying out regular assessments of the flexibility of the grid and issues related to renewable integration.	End-January 2025	CCDR Various academic publications on renewable energy in Benin (Renewable energy in Benin.	No	Support progress toward the national objective of reaching a 20-30 percent renewable energy penetration by 2035.	WB may provide some support based on their expertise on the electricity market in Benin. MCC – which provided significant support in this area – is winding down their involvement after the expiration of the MCA-II Compact.
Mobilizing private sector financing for climate change.	**RM15.** Enhance the climate financial information architecture by the adoption by way of decree (arrêté) by the Ministry of Economy and Finance, and subsequent implementation of two complementary frameworks: i) a climate-related taxonomy (reference framework for private sector climate investment) covering mitigation and adaptation needs across key sectors defining financing and climate-related targets and private financing instruments; and ii) a climate mitigation and adaptation data collection and dissemination mechanism, connected to the taxonomy, across key sectors for private companies and key economic infrastructures. This mechanism will be coordinated and implemented by the National Statistics and Demography Institute, requiring the adoption of an arrêté under the 2022 legal framework governing the Institute's missions.	End-May 2025	MCM (in line with CCDR and AfDB recommendations)	Possible MCM TA input (based on the "Activating Alignment" September 2023 report)	Facilitate the financing of mitigation and adaptation activities by the private sector.	World Bank may provide some inputs given the joint work with IMF on alignment methodologies.

Table 3. Benin: RSF Reform Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD Input	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
Supporting mitigation efforts	**RM11. Comprehensive fossil fuel subsidy reform:** including (i) the design of a simple tax structure taking into account the specificities of Benin's local fuel market; and (ii) reform the pricing mechanism, in line with the conclusions of IMF technical assistance.	End-October 2024	FAD TA (in process)	FAD TA (in progress)	Institutionalize fuel pricing in a way that systematically aligns domestic pump prices with international oil prices over the cycle. Enables mobilization of private climate finance by sending price signal to investors.	
	RM12. Social protection in relation to fuel subsidy reform. i) Establish a compensatory mechanism to limit the effect of fuel subsidy reform on vulnerable groups using the Social Registry (RSU); ii) adopt an implementation framework for the RSU which defines the Management Information System (MSI) governance structure and provides detailed operational guidance, while ensuring adequate financial, human, and material resources to the unit responsible for the operationalization of the RSU.	End-October 2024	FAD TA (in process) WB (in process)		Enhance Benin's social safety net by supporting the operationalization of the social registry and institutionalizing it to protect vulnerable groups and ensure social cohesion in implementation of subsidy reform (RM11).	The authorities will benefit from WB technical support in elaborating the RSU implementation framework and defining an adequate governance structure
	RM 13. Electricity tariff reform: Design and adopt a comprehensive and gradual electricity tariff reform to fully remove electricity subsidies and reflect cost-recovery levels, with the first phase to be implemented in 2025.	End-January 2025	CCDR	No	Remove electricity price subsidies that indirectly support fossil fuel emissions, and support progress toward the national objective of reaching a 20-30 percent renewable energy penetration by 2035.	World Bank also stands ready to provide some support based on their expertise on the electricity market in Benin.

Table 3. Benin: RSF Reform Matrix (concluded)

	RM14. Support to renewable energy: Remove key obstacles to development of renewable energy (RE) by adopting regulations and decisions to (i) putting in place a connection cost policy supporting connection for RE generation and (ii) committing to carrying out regular assessments of the flexibility of the grid and issues related to renewable integration.	End-January 2025	CCDR Various academic publications on renewable energy in Benin (Renewable energy in Benin – current situation and future prospects, Akpahou et alii, Sept 2023 ; A critical analysis of the energy situation in Benin and its evolution over the last decade, Mensah et alii, 2022)	No	Support progress toward the national objective of reaching a 20-30 percent renewable energy penetration by 2035.	WB may provide some support based on their expertise on the electricity market in Benin. MCC – which provided significant support in this area – is winding down their involvement after the expiration of the MCA-II Compact.
Mobilizing private sector financing for climate change.	**RM15.** Enhance the climate financial information architecture by the adoption by way of decree (arrêté) by the Ministry of Economy and Finance, and subsequent implementation of two complementary frameworks: i) a climate-related taxonomy (reference framework for private sector climate investment) covering mitigation and adaptation needs across key sectors defining financing and climate-related targets and private financing instruments; and ii) a climate mitigation and adaptation data collection and dissemination mechanism, connected to the taxonomy, across key sectors for private companies and key economic infrastructures. This mechanism will be coordinated and implemented by the National Statistics and Demography Institute, requiring the adoption of an arrêté under the 2022 legal framework governing the Institute's missions.	End-May 2025	MCM (in line with CCDR and AfDB recommendations)	Possible MCM TA input (based on the "Activating Alignment" September 2023 report)	Facilitate the financing of mitigation and adaptation activities by the private sector.	World Bank may provide some inputs given the joint work with IMF on alignment methodologies.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs) and indicative targets (ITs) that will be applied under Benin's program supported by a 42-month EFF/ECF (2022–2025), as described in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables. It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes. Reviews will assess quantitative targets as of specified test dates and on a continuous basis. The TMU also covers some elements of monitoring of the Fund-supported program under the Resilience and Sustainability Facility (RSF).

PROGRAM ASSUMPTIONS

2. **Exchange rates under the program.** For the purposes of this TMU, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the key exchange rates below as of December 31, 2021 (Table 1).

Table 1. Benin: Exchange Rates (End of period, 2021)

CFAF/US$	580.3
CFAF/€	655.96
CFAF/SDR	811.4

DEFINITIONS

3. Unless otherwise indicated, "government" is understood to mean the central government of the Republic of Benin and does not include any local governments, the Central Bank, or any other public or government-owned entity that has autonomous legal status and whose operations are not included in the table of government financial operations (*Tableau des opérations financières de l'État, TOFE*).

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

a. **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

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

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

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

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

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

b. The present value of loans will be calculated using a single discount rate set at 5 percent.

c. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 3.29 percent and will remain fixed for the duration of the program. [1] The spread of six-month Euro LIBOR over six-month USD SOFR is -50 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is 150 basis points. For

[1] The program reference rates and spreads are based on the "average projected rate" for the six-month USD SOFR over the following 10 years from the October 2023 World Economic Outlook (WEO).

interest rates on currencies other than Euro and GBP, the spread over six months USD SOFR is 0 basis point. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

d. Domestic debt is defined as debt denominated in CFA franc other than the debt contracted from BOAD. External debt is defined as debt denominated in any currency other than the CFA franc. For program purposes, BOAD loans are considered as external debt.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the Basic Primary Fiscal Balance (excluding grants)

Definition

5. The basic primary fiscal balance is defined as the difference between total fiscal revenue on a cash basis (tax and nontax) and basic primary fiscal expenditure. Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments on domestic and external debt; and (b) capital expenditure financed by external grants and loans (on a payment order basis). Grants are excluded from revenue in this definition and net government lending is excluded from fiscal expenditure.

6. The balances at end-December 2023 and end-June 2024 (PCs) and the balances at end-March, end-September and end-December 2024 (ITs) must be equal to or greater than the amounts indicated in Table 1 of the MEFP.

Adjustor

7. For 2023, the floor on the basic primary fiscal balance (cumulative since January 1, 2023) will be adjusted downward by the amount of additional budget support (as defined in Paragraph 9) beyond the programmed 100.7 CFAF billion, for an amount up to CFAF 46 billion at end-December 2023.

B. Ceiling on Net Domestic Financing of the Government

Definitions

8. Net domestic financing of the government is defined as the sum of (i) the net position (difference between the government's claims and debt) vis-à-vis the central bank and commercial banks and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

9. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief

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

Performance Criteria and Indicative Targets

10. Net domestic financing at end-December 2023 and end-June 2024 (PCs) and the balances at end-March, end-September and end-December 2024 (ITs) must be equal to or less than the amounts indicated in Table 1 attached to the MEFP.

Adjustor

11. Net domestic financing of the government will be adjusted downward (upward) if net external budgetary assistance exceeds (or falls short) of the program projections in Table 2:

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

Table 2. Benin: Expected Net External Budgetary Assistance[1]
(Billions of CFA francs)

March 31, 2023	-126.9
June 30, 2023	-168.0
September 30, 2023	-127.6
December 31, 2023	-133.2
March 31, 2024	-185.4
June 30, 2024	-218.9
September 30, 2024	-242.4
December 31, 2024	-152.3

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

- If, at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be raised pro tanto, up to a maximum of CFAF 50 billion.

C. Non-Accumulation of New Domestic Payment Arrears by the Government

Definition

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

Continuous Performance Criteria

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

D. Non-Accumulation of External Payment Arrears by the Government

Definition

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

Continuous Performance Criterion

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

E. Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More

Definition

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

17. The term "government" used for this performance criterion and for the performance criterion on the new external debt contracted by the government, includes the government, as paragraph 3.

18. This performance criterion also covers government-guaranteed debt of local governments and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Adjustor

19. For 2023, the ceiling on the present value of new External debt contracted or guaranteed by the government (cumulative since January 1, 2023) will be adjusted upward by the present value equivalent of the amount of additional budget support beyond the programmed 100.7 CFA billion, for an amount up to CFA 46 billion at end-December 2023.

Continuous Performance Criterion

20. The present value of new external borrowing contracted or guaranteed by the government should not exceed CFAF 620 billion in 2023 (Table 3) and CFAF 620 billion in 2024 (Table 4). Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

Table 3. Benin: Borrowing Plan in 2023
(Billions of CFA francs)

PPG external debt	**Volume of new debt in 2023**		**PV of new debt in 2023 (program purposes)**	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**909.5**	**100**	**619.9**	**100**
Concessional debt, of which	**530.8**	**58**	**269.0**	**43**
Multilateral debt	408.3	45	193.7	31
Bilateral debt	122.4	13	75.3	12
Non-concessional debt, of which	**378.7**	**42**	**350.9**	**57**
Semi-concessional	118.2	13	90.4	15
Commercial terms	260.5	29	260.5	42

Table 4. Benin: Borrowing Plan in 2024
(Billions of CFA francs)

PPG external debt	Volume of new debt in 2024		PV of new debt in 2024 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**912.0**	**100**	**619.7**	**100**
Concessional debt, of which	**574.2**	**63**	**328.4**	**53**
Multilateral debt	414.1	45	230.1	37
Bilateral debt	160.1	18	98.3	16
Non-concessional debt, of which	**337.8**	**37**	**291.3**	**47**
Semi-concessional	237.8	26	191.3	31
Commercial terms	100.0	11	100.0	16

INDICATIVE TARGETS

A. Floor on Tax Revenue

Definition

21. Tax revenue includes revenues collected on a cash basis by revenue-collection departments. The data are reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Economic and Financial Programs Monitoring Unit of the Ministry of Economy and Finance.

22. The revenue will be calculated cumulatively from the beginning of the calendar year. Revenue collections at end-December 2023 as well as end-March and end-June, end-September and end-December 2024 and must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The tax revenue floor is an IT for the entire duration of the program.

B. Priority Social Spending

23. Priority social expenditure includes expenditure executed from the State budget (from both domestic and external resources), excluding salary expenditure and relating mainly to public interventions in the areas of education, health and nutrition, the establishment of social safety nets, access to electricity, water and sanitation, microfinance (small and medium enterprises), as well as security and to civil protection. Priority social spending (PSE) is very selective and captures only spending that directly reduces poverty.

24. Priority social expenditure will be monitored on a payment order basis under the program. The indicative target applies to the execution of expenditure (not the allocation). The indicative target for the central government priority social spending floor will be calculated cumulatively from the beginning of the calendar year.

25. This indicative target will be monitored through the table of quarterly expenditure provided by the Ministry of Economy and Finance. A detailed list of priority expenditure items is provided in Table 5:

Table 5. Benin: Priority Social Spending Coverage

Agriculture	Education	Social Affairs	Health	Sanitation and nature protection	Energy
-National Agricultural Development Fund; -Food safety; -Control of fishery products exploitation standards; -Support for rural economic growth; -Support for agricultural productivity of small farms; -Support for agricultural diversification and food production; -Development of market gardening; -Development of agricultural infrastructure in grassroots communities; -Development of irrigated areas in rural areas; -Soil protection and rehabilitation; -Development of lowlands; -Strengthening storage capacities; -Food security and resilience building; -Nutrition.	-School canteen program; -Free schooling at the primary level; -Provision of school books; -Free schooling for girls in secondary school; -Scholarships for students in technical and vocational high schools and colleges; -Construction and equipment of educational infrastructures in the three levels of education; -University works (catering, transport, accommodation, etc.); -Scholarships and university assistance; -Support program for doctoral students; -Scholarships for the training of trainers; -Reinforcement of social infrastructures.	-Cash transfer to the household; -Micro-credits to the poorest for the promotion of income generating activities; -Support to national solidarity; -Promotion of the family; -Regulation and management of child adoption processes; -Promotion at the base; -Support for people with disabilities; -Capacity strengthening, training and learning center for people with disabilities; -Support for the elderly; -Social welfare.	-Vaccination and primary health care; -Blood transfusion; -Screening and treatment of diseases covered by the State*; -Construction and equipment of hospitals; -Development of traditional medicine and pharmacopoeia; -Reproductive health; -Health care for the indigent; -Community health;	-Modernization of the efficient waste collection system; -Storm water sanitation; -Protection against coastal erosion; -Social housing development; -Forest protection expenditures; -Incentives for reforestation; -Expenditures to promote the substitution of wood energy for domestic gas.	- Electrification of rural localities; - Development of renewable energy and energy efficiency; - Development of conventional energy; - Reinforcement and extension of electrical networks; - Biomass electricity; - Strengthening resilience to climate change impacts.
Sport	**Security and civil protection**	**Infrastructure and Transportation**	**Water and mining**	**Justice**	**Employment**
-Development of the practice of sport at the grassroots level; -Promotion of school and university sports; -Sports competitions; -Leisure and association life	-Disaster prevention and management; -Integrated management of border areas; -Maintenance and management of the population register	-Development of rural roads; -Small bridges and various works of crossing of lowlands and others	-Drinking water supply; -Water supply system; -Development of multifunctional hydraulic infrastructures	-Child and youth safeguarding expenses; -Food for prisoners; -Social reintegration of prisoners	-Various internship programs managed by the ANPE; -Training-entrepreneurship of young people

*Assistance to hemodialysis patients; screening and treatment of ulcer, pneumo-pathobiology, fight against tuberculosis, AIDS, hepatitis, non-communicable diseases, leprosy, malaria, sickle cell anemia, subsidies to hospitals, etc.

Indicative Target

26. Priority Social spending at end-December 2023 as well as end-March and end-June, end-September and end-December 2024 must be equal to or greater than the amounts indicated in Table 1 of the MEFP.

INFORMATION FOR PROGRAM MONITORING

A. Data on Performance Criteria and Indicative Targets

27. To facilitate effective program monitoring, the authorities will provide IMF staff with the following data in excel format:

Monthly:

- Data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month of entry into force of these loans;
- Monthly consumer price index, within two weeks of the end of the month;
- The TOFE, including revenue on a cash basis, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including claims held by the nonbank private sector); and data on the basic primary fiscal balance, within six weeks of the end of the month;
- Data on the balance, accumulation, amount (stock), and repayment of public domestic and external payment arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month;
- The monetary survey, produced by the BCEAO, within eight weeks of the end of the month.

Quarterly:

- The price structure of petroleum products;
- The employment index and the traffic of merchandise at the Port of Cotonou, within 25 days of the end of the month;
- The Industrial production index and the turnover index, within three months of the end of the quarter;
- High priority social spending (Table 4), including health, education, social protection and security, by functional classification of expenditure, within eight weeks after the end of the quarter;

- Data pertaining to the amount of exceptional payment orders or other exceptional measures, within six weeks of the end of the quarter;
- Stock-flow adjustment table;
- National account statistics, within three months of the end of the quarter.
- Total new Eurobond issuances provided on quarterly basis, within two weeks after the end of the quarter.

B. Other Information

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

- Financial soundness indicators, produced semi-annually by the BCEAO, within eight weeks of the end of the semester.
- Data on the implementation of the public investment program, including detailed information on sources of financing within eight weeks of the end of the quarter; and
- Update of the PPP projects catalog and the amounts of contracted projects, within eight weeks of the end of the quarter.
- Execution of the investment budget, within eight weeks of the end of the quarter.
- Data on the stock of external debt, external debt service, the signing of external loan agreements and disbursements of external loans, within twelve weeks of the end of the quarter.
- Data on military and security spending, within eight weeks of the end of the quarter.
- Balance of payments data, produced by the BCEAO, within ten months of the end of the year.
- More generally, the authorities will report to the IMF staff any information needed for effective monitoring of the implementation of economic policies.

29. With respect to the RSF, the authorities will provide IMF staff with all deliverables (legal texts, manuals, methodologies, etc.) referred to in each reform measure. In addition, the authorities will provide additional information to facilitate assessment of the following RMs:

- RM5 (Water governance): staffing and budget allocation to the National Water Council.

RM6 (Water tariffication in urban areas): preparatory studies leading to the adoption of the new water tariffication mechanism.

INTERNATIONAL MONETARY FUND

BENIN

November 30, 2023

THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILIT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Annalisa Fedelino and Geremia Palomba (IMF), and Manuela Francisco and Abebe Adugna (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

Benin – Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*[2]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	*No*

Benin remains at moderate risk of external and overall debt distress, unchanged from the previous DSA (May 2023). All projected external debt burden indicators remain below high-risk thresholds under the baseline scenario, apart from a one-off breach to the debt service-to-revenue ratio in 2030 when large Eurobond payments are falling due. Nevertheless, external debt indicators have seen some deterioration since the previous DSA as the authorities have substitute more costly domestic financing with external borrowing amid tighter conditions on the regional security market. The space to absorb shocks remains limited. External debt burden indicators also breach high-risk thresholds in selected stress tests, particularly commodity price, export, and natural disaster-related shocks. The high debt service-to-revenue ratio continues to leave debt vulnerable to revenue underperformance or shifts in market sentiment that could increase rollover costs. However, Benin is expected to be able to refinance payments falling due in 2024-26. Sustained revenue mobilization efforts, along with continued prudent borrowing, active debt

[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

[2] Benin retains a medium-rated debt-carrying capacity, given the 2.98 Composite Indicator, which is based on the October 2023 WEO and the 2022 CPIA.

management strategy and mainstreaming climate change into policymaking, would mitigate the risk of debt distress. In seeking the most cost-effective financing options, the authorities should also ensure that the financing mix does not leave debt overly exposed to external risk.

PUBLIC DEBT COVERAGE

1. **This Debt Sustainability Analysis (DSA) covers central government and central bank debt as well as guarantees provided by the central government (Text Table 1).**[3] Central bank debt borrowed on behalf of the government (i.e., debt to the IMF) is included as external debt. External debt is defined on a currency basis owing to data limitations, except for debt from the regional development bank (BOAD), which is included as external debt for the purpose of the DSA.

Text Table 1. Benin: Public Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

2. **Debt coverage remains fairly comprehensive but does not include non-guaranteed SOE debt and the non-financial debts of other government entities.**[4] Benin received a high score for sectoral coverage on the IDA Debt Reporting heat map for 2022. Although public debt does not include non-guaranteed SOE debt, the authorities have published information on the outstanding stock of non-guaranteed SOE debt (comprising 13 SOEs), which stood at 1.9 percent of GDP at end-2021. They also included details on on-lending to SOEs in quarterly debt bulletins in 2021, as part of IDA's Sustainable Development Finance Policy (SDFP) and most recent Development Policy Operations. Also, under the SDFP, the Debt Management Office and the Directorate in charge of SOEs (General Directorate of State Participations and Denationalization, DGPED) established a monitoring system following the adoption by ministerial order of a risk-based framework for granting SOE guarantees. The authorities also published details on the non-financial debt held by local governments, including communes (e.g., supplier credit or debt to the central government), which was estimated 0.3 ppt of GDP at end-2021. These entities have not contracted financial debt and cannot do so without the agreement of the central government. The authorities see consolidating the general government fiscal accounts as an important prerequisite for broadening debt coverage, particularly incorporating the financial statements of the SOEs (both on the revenue and expenditure sides) for inclusion in the DSA. Expanding this coverage of fiscal accounts remains an important medium-term capacity development priority being supported by AFRITAC-West,

[3] Debt on-lent to SOEs is also included as part of central government borrowing.

[4] Other non-financial government debts would include items 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' pensions.

including a Fall 2023 technical assistance mission to discuss the related workplan.[5] The authorities also recently prepared and annexed to the 2024 budget law a quantitative fiscal risk assessment. The statement assessed risks from SOEs; it reported positive net income from these entities from 2020–22.[6]

Text Table 2. Benin: Contingent Liability Stress Test

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.3	Estimated local debt not captured in the central government sector at end-2021.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	1.9	The stock of SOE's debt not captured in the central government sector is estimated at 1.9 percent of GDP at end-2021.
4	PPP	35 percent of PPP stock	2.4	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		9.6	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

3. The contingent liabilities shock has been calibrated to reflect risk associated with debt not captured in the baseline and other risks. The total shock stands at 9.6 percent of GDP and includes 1.9 percent of GDP in SOE debt based on the latest available data (end-2021), 0.3 percent of GDP for local government debt based on the latest reported estimate, 2.4 percent of GDP for PPPs based on the capital stock from the World Bank's PPP database (6.8 ppts of GDP), and the default setting for financial market risk (5.0 percent of GDP) (Text Table 2).[7] Benin's debt policy and management score was rated at 4.5 out of 6 in the 2019 and 2022 CPIA evaluations, with higher values corresponding to debt management strategies more conducive to minimizing budgetary risks and ensuring debt sustainability.

BACKGROUND

A. Recent Debt Developments

4. Benin's public debt continued its upward trend through 2022.[8] Public debt rose to 54.2 percent of GDP in 2022 (from 50.3 percent of GDP in 2021) due to higher spending to meet urgent needs (with less grants), the CFA franc depreciation against the USD , and some additional pre-emptive domestic issuances—the authorities issued FCFA 300 billion (2.9 percent of GDP) on the

[6] See Annex IX in Benin: 2022 Article IV Consultation and Requests for an Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility (IMF Country Report 22/245).

[6] *Déclaration sur Les Risques Budgétaires, PLF 2024.*

[7] Contingent liabilities have not materialized from these entities in recent years.

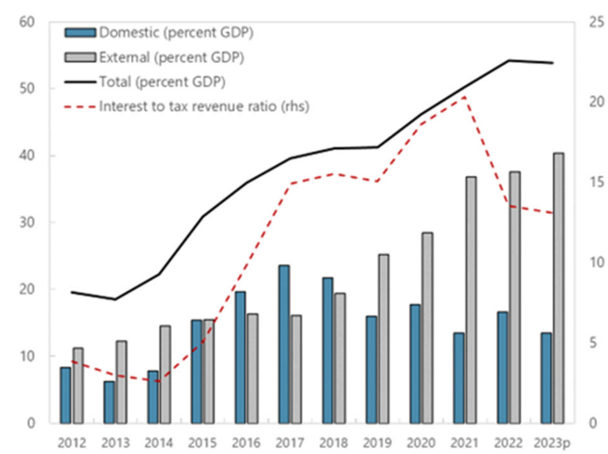
[8] Benin does not currently have any arrears vis-à-vis external creditors. Public domestic debt arrears are commitments to domestic suppliers that were validated in a 2019 audit (totaling 0.1 ppt of GDP as of end-June 2022), which do not suggest government solvency or liquidity problems given their small size.

regional security market as part of their active debt management strategy to preempt adverse market conditions.[9]

5. Amid tightening financial conditions on the regional market, the authorities received an SDG loan to substitute domestic financing over the summer. Rates on the regional market have risen since the start of the year (Box 1). The €350 million SDG-loan (2 percent of GDP) is expected to fund SDG-related spending in the 2023 budget (substituting for domestic financing). Its issuance at an interest rate 2.9 percent above Euribor (4-year grace-period and 12-year maturity) was supported by the AfDB partial credit guarantee approved in 2022. This follows Benin's SDG bond issuance in 2021 (Africa's first ever) of €500 million for a 12.5-year maturity at 4.95 percent. The SDG financing contributes to the gradual shift toward external debt in recent years, where borrowing costs have been somewhat lower. The largest shares of debt at end-2022 were held by multilateral creditors and international bond holders at 38 percent and 19 percent, respectively (Text Table 3). Domestic public debt made up about 31 percent of the debt stock, with a large portion of securities on the regional financial market.

6. Proactive liability management has helped smooth out the public debt service profile, reduce costs, and roll over risks. The overall public debt service-to-revenue ratio is expected to average 33 percent in 2023-27 (slightly lower than 35 percent in the previous DSA), helped by good revenue performance. On the external side, debt service costs benefited from the 2021 reimbursement of about 65 percent of the 2019 Eurobond falling due in 2024–26. On the domestic side, an issuance of a US$300 million external commercial loan in 2018 backed by a World Bank partial guarantee was used to reprofile costly short term-domestic debt. Although near-term domestic debt service is significant, averaging 4.3 percent of GDP in 2023–25, Benin has aimed to mitigate rollover risks through proactive debt management (Box 1). The interest to tax revenue ratio is expected to decline further from its peak of 20 percent in 2021 to 13.1 percent in 2023.

Text Figure 1. Benin: Total Public Debt and Interest to Tax Revenue Ratio
(2012–23, percent of GDP)



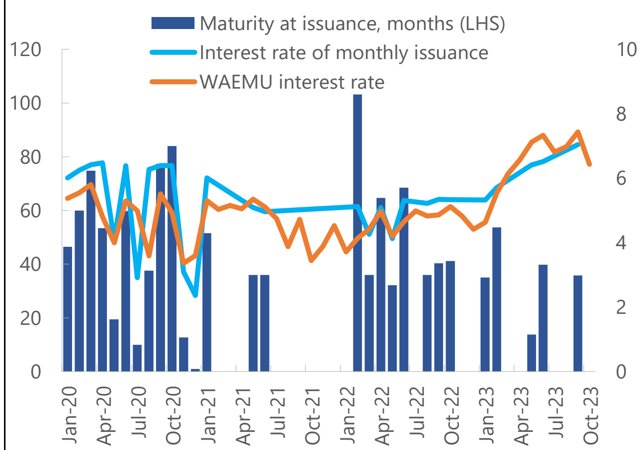
Sources: Country authorities and IMF staff estimates and projections.

[9] This DSA includes all debt service associated with these issuances. Given that the timeframe for drawing on these resources is currently undefined, the DSA assumes that they are maintained as precautionary resources implying upside to the projected baseline debt stock.

Box 1. Benin: Financing Conditions on the WAEMU Regional Market[1]

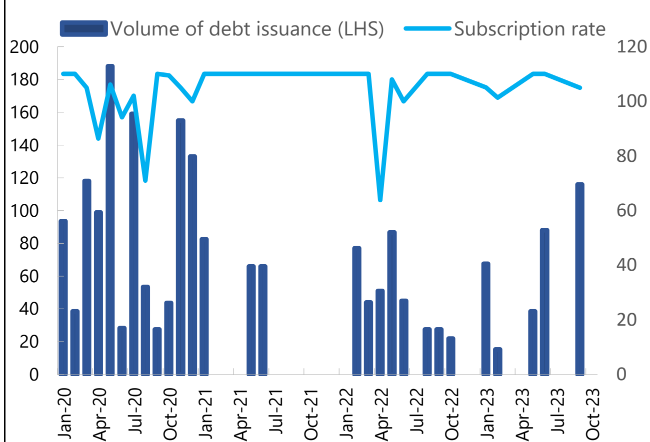
A persistent rise in regional public debt and the tightening of global financial conditions have made WAMEU financing conditions less favorable. Cumulative BCEAO policy rate hikes amounted to 125 basis points (bps) in 2022 and 25 bps in 2023, raising the minimum bid rate to 3.25 percent. The BCEAO explained that this decision was due to increased regional uncertainties, persistent inflationary pressure, tight international financial conditions, and limited external financing. However, the BCEAO has also engaged in *de facto* loosening of monetary conditions by purchasing regional debt worth CFAF 1 trillion in June and CFAF 933 billion in September in the secondary market.

Figure 1. Yields and Maturities on Debt Issuance, 2020-2023 (monthly weighted averages; percent and months)



Source: UOMA-Titres and IMF staff calculations.

Figure 2. Volumes of Issuances and Subscription Rate, 2020-2023 (billions of CFAF and percent)



Source: UOMA-Titres and IMF staff calculations.

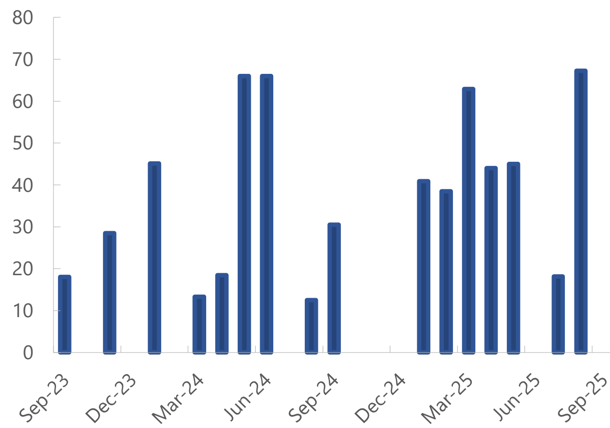
Although Benin's borrowing costs have been lower than for some other WAEMU members, the country has seen an increase in rates in its recent issuances. At 5.9 percent, the weighted-average interest rate on Benin's entire debt stock remains high, albeit below the WAEMU average of 6.3 percent. As of end-October, Benin had issued 2.7 ppt of GDP in 2023 at an average of 6.2 percent with a weighted-average maturity of 3 years (Figure 1). In 2022, issuances amounted to around 5 percent of GDP, with an average interest rate of 5.2 percent and maturity of 6 years (including two seven-year bonds and one ten-year bond), while issuances immediately after COVID-19 (March 2020–December 2021) had average interest rate of 6 percent and maturity of 5 years. Issuances have been fully subscribed after a drop in the subscription rate in early 2023 (Figure 2), although a planned October issuance was postponed. While yield curves exhibit an upward sloping pattern at the aggregate level, Benin's curve shows no discernible pattern for the term structure of interest rates. The significant heterogeneity across WAEMU members in this regard reflects the relatively shallow and illiquid local financial markets, with limited activity in the secondary markets.[2]

1/Prepared by Markus Specht (AFR).
2/ IMF, 2023, "The WAEMU Regional Market for Government Debt in a Period of Tightening Financial Conditions" (West African Economic and Monetary Union: Selected Issues), *IMF Country Report No. 23/103*.

Box 1. Benin: Financing Conditions on the WAEMU Regional Market (concluded)

Short-term rollover needs for Benin in the domestic market are manageable, but continued proactive debt management will be important (Figure 3). Medium-term rollover needs are expected to peak in August 2025 at 0.5 percent of GDP, with similarly sized peaks in the short-term in May and June 2024 (Figure 3). Benin has aimed to mitigate rollover risks through proactive debt management such as recent liability issuances throughout 2022 to preempt adverse market conditions (which could be used in the future for financing or rollover needs) and by issuing longer maturities on the regional market. Benin's 2022 issuance of CFAF 150 billion in two tranches of 15 and 20 years marked the first 20-year issuance on the regional market and cemented the country's position as a market front-runner.[2] However, about one third of all debt in the domestic market is coming due in the next two years, with Benin's share of WAMEU-wide debt coming to maturity peaking at 73 percent in May 2025. Given high risk premia currently paid by WAEMU members with access to international capital markets (i.e., Benin, Senegal, Cote d'Ivoire), liquidity could be constrained in case the larger economies (particularly Cote d'Ivoire) decide to borrow regionally rather than externally at the same time.

Figure 3. Scheduled Monthly Debt Redemptions, 2023-2025
(billions of CFAF)



Sources: UOMA-Titres and IMF staff calculations.

[2/] IMF, 2022, Benin: 2022 Article IV Consultation Staff Report (Annex VI: Benin's Access to Capital Markets), *IMF Country Report No. 22/245*.

Table 3. Benin: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ millions)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ millions)*			*(Percent GDP)*		
Total	9494.6	100	54.2	1503	1171	1030	8.6	5.9	4.8
External	6584.2	69.3	37.6	351	407	517	2.0	2.1	2.4
Multilateral creditors[2]	3593	37.8	20.5	135	158	228	0.8	0.8	1.1
IMF	706	7.4	4.0						
World Bank	1536	16.2	8.8						
ADB/AfDB/IADB	486	5.1	2.8						
Other Multilaterals	865	9.1	4.9						
Arab Bank for Economic Development	54	0.6	0.3						
BOAD	324	3.4	1.8						
Nordic Development Fund	14	0.1	0.1						
ECOWAS Bank for Investment and Development	37	0.4	0.2						
European Investment Bank	72	0.8	0.4						
IFAD	65	0.7	0.4						
OPEC	37	0.4	0.2						
Islamic Development Bank	263	2.8	1.5						
Bilateral Creditors	514	5.4	2.9	31	39	40	0.2	0.2	0.2
Paris Club	121	1.3	0.7	2	5	6	0.0	0.0	0.0
France	121	1.3	0.7						
Non-Paris Club	392	4.1	2.2	29	35	34	0.2	0.2	0.2
China	299	3.1	1.7						
India	16	0.2	0.1						
Kuwait	39	0.4	0.2						
Saudi Arabia	37	0.4	0.2						
Bonds	1775	18.7	10.1	82	98	162	0.5	0.5	0.8
Commercial creditors	702	7.4	4.0	104	113	87	0.6	0.6	0.4
MUFG Bank	213	2.2	1.2						
RABOBANK	151	1.6	0.9						
Bank of China	17	0.2	0.1						
Societe General	69	0.7	0.4						
UKEF	57	0.6	0.3						
Banco de Brazil	74	0.8	0.4						
Deutche Bank	49	0.5	0.3						
NTXS	35	0.4	0.2						
BPI France	9	0.1	0.0						
Credit Suisse	28	0.3	0.2						
Domestic[3]	2910	30.7	16.6	1152	764	513	6.6	3.9	2.4
Held by residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held by non-residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
T-Bills	51	0.5	0.3						
Bonds	2688	28.3	15.3						
Loans[4]	222	2.3	1.3						
Memo items:									
Collateralized debt	0		0.0						
Contingent liabilities	306		1.7						
o/w: Public guarantees	9		0.1						
o/w: Other explicit contingent liabilities[5]	297		1.7						
Nominal GDP			17522	17522	19753	21583			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial.

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies

3/Breakdown of debt by resident not availble due to data limitations in tracking holders of regional securities in secondary markets.

4/Includes central bank on lending related to the SDR allocation and guaranteed debt.

5/Estimation of commerical non-guaranteed SOE debt that is not included in the debt stock based on end-2021 estimation.

Sources: Country Authorities; and staff estimates and projections

B. Macroeconomic Assumptions

7. Macroeconomic assumptions underlying the DSA projections are consistent with the Third EFF/ECF Review and RSF request baseline with changes from the previous DSA (May 2023) (Text Table 4). Compared with the previous DSA, the baseline incorporates the near-term impact of policy changes in Nigeria and the coup in Niger on growth and inflation, additional fiscal spending supported by the mobilization of additional budget support and grants, and updated financing to reflect greater reliance on SDG financing and the Fund-supported RSF. The main assumptions are as follows:

- **Real GDP Growth.** Near-term growth has been revised down from 6.0 to 5.6 percent of GDP in 2023 reflecting the Niger border amid regional sanctions following a coup in that country, including disruption of transit trade. Over the medium-term, the economy is expected to rebound as large-infrastructure investment consistent with the authorities' development objectives[10] and some recovery in private investment bolstered by the authorities' efforts to improve competitiveness (e.g., acceleration of the Special Economic Zone, promotion of SMEs) is expected to continue to support growth, which is expected to remain around potential at 6 percent.[11] Similarly, longer-term projections remain conservative at 5.7 percent converging to the steady-state.

- **Inflation and GDP deflator.** Inflation for 2023 is now projected at 3.7 percent of GDP (compared with 3.5 percent at the Second Review). Although recent pump price hikes in Nigeria, have significantly increased the price of smuggled gasoline onto Benin, these have been largely offset by negative inflation of some food items. As a result, the GDP deflator is slightly higher over the medium-term, averaging 2.4 percent over 2023-28 compared with 2.2 percent in the previous DSA. The GDP deflator is expected to converge around 2 percent over the long term.

- **Primary fiscal balance.** The primary deficit (including grants) is expected to narrow to 2.8 percent of GDP in 2023 as fiscal policy shifts toward revenue-based fiscal consolidation, compared with 2.6 percent in the previous DSA due to the mobilization of additional budget support and higher capital expenditure (see below). In line with the current WAEMU-wide stance, the baseline continues to assume that the overall fiscal deficit would converge to the regional fiscal norm of 3 percent of GDP in 2025. Fiscal consolidation will be supported by revenue mobilization, spending prioritization, efficiency gains in public investment, and unwinding of temporary spending measures (related to COVID-19 and Russia's invasion of Ukraine). Over the long term while the government's ambitious development plan will generate spending needs, the authorities have a solid track record of fiscal prudence and prioritizing debt

[10] Benin's National Development Plan (PND; 2018-25) emphasizes Sustainable Development Goals (SDG), particularly closing infrastructure and human capital gaps by scaling up spending on education, health, access to water, and electricity. The IMF 2022-25 ECF/EFF will help anchor this development plan by focusing on creating fiscal space to support significant development needs while preserving debt sustainability.

[11] Estimate is based on a growth accounting exercise, using envisaged public and private investment dynamics for 2023-26, average historical contributions to growth of human capital accumulation for 2015-18 and estimated total factor productivity during the previous IMF-supported ECF (2017-20).

sustainability, with the latter further bolstered by the strong public consensus on keeping debt under control.

- **Revenues and grants.** Revenues and grants for 2023 are higher at 14.9 percent of GDP (compared with 14.7 percent in the previous DSA), owing to an increase in grant financing thanks to the World Bank PACOFID program financing fertilizer subsidies that had previously been budgeted as current transfers (0.2 ppt of GDP). Strong tax efforts are expected to be maintained in 2023, as the authorities are locking in the strong 2022 tax revenue performance and offsetting tax expenditures with the expansion of previous measures, an increase in the taxation of foreign service providers, customs policy and administrative tax measures, as well as clearance of tax arrears. For 2024 tax measures include a mix of tax policy and administrative measures (Text Table 5). Tax arrears collection also remains an important revenue collection avenue. Over the medium-term, revenue mobilization will be underpinned by the new Medium-Term Revenue Strategy (MTRS) finalized in September, which aims to increase tax collection by 3 ppt of GDP by 2028 by expanding the tax base and improving the overall efficiency of the tax system. This would be achieved through the rationalization of tax expenditures, promoting tax compliances and identifying new niches, combatting fraud, and strengthening the technical capacity of tax administration.

Text Table 5. Benin: Estimated Additional Yields from Tax Measures in 2024.

(Percent of GDP)

Net Additional Yields Relative to the Previous Year (A+B+C)	**0.5**
A. Domestic taxation, *of which*	**0.6**
Removing payroll tax exemptions for public agencies	0.1
Expansion of standardized invoices to retail businesses	0.1
Clearance of domestic tax arrears	**0.4**
B. International taxation measures, *of which*	**0.4**
Application of transaction values to new goods	0.1
Improved control of customs valuation	0.1
Clearance of custom duties arrears	**0.2**
C. Revenue-reducing effects, incl. nominal GDP	**-0.5**

Sources: Beninese authorities and IMF staff estimates and projections.

- **Total expenditure.** Total expenditure will be higher in the near-term at 19.3 percent of GDP in 2023 (compared with 19.0 percent in the previous DSA), as the authorities use additional space provided by the fiscal adjustor under the EFF/ECF (see below) and increased use of grants to meet priority spending needs.

- **Fiscal adjustor.** The baseline overall deficit is now projected at 4.5 percent of GDP in 2023, compared with 4.3 percent in the previous DSA, as the authorities have mobilized an additional 0.2 ppt of GDP in external budget support. This has smoothed fiscal adjustment somewhat, with limited impact on the overall debt profile given the concessional nature of such financing. The deficit has the potential to increase up to 4.7 ppt of GDP if the authorities can mobilize further external concessional budget support as allowed under the Fund-supported program.

- **Current account deficit.** The current account deficit is expected to widen to 5.8 percent of GDP in 2023 in line with the previous DSA, reflecting a deterioration in the terms of trade. The current account deficit is expected to improve over the medium term, hovering close to 4 percent of GDP, supported by fiscal consolidation. This export assumptions in this DSA make further adjustments to account for ongoing reforms to boost competitiveness including the completion of far-reaching projects under the national development plan (PAG-II) like the expansion of the Port of Cotonou, exploring new trade opportunities with Nigeria, and accelerating the Special Economic Zone (SEZ), which should help raise exports in the long term, offsetting projected declines in cotton export receipts as international prices moderate. The projected long-term current account deficit averages 3.4 percent of GDP over 2029-43 (compared with 4.4 percent in the previous DSA). FDI is also expected to see modest gains in the medium-term, from 1.6 percent of GDP in 2023 to 1.8 percent of GDP in 2028, as reforms help improve investor confidence.

Text Table 4. Benin: Baseline Macroeconomic Assumptions for Debt Sustainability Analysis

	2022	2023	2024	2025	2026	2027	2028	Medium-term 2023-28	Long-term 2029-43
GDP Growth (percent)									
Current DSA	6.3	5.6	6.0	5.9	6.0	5.9	6.0	5.9	5.7
Previous DSA[1]	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.7
GDP Deflator (percent)									
Current DSA	4.1	3.3	2.8	2.0	2.0	2.0	2.0	2.4	2.0
Previous DSA	4.1	3.3	2.0	2.0	2.0	2.0	2.0	2.2	2.0
Current account deficit (percent GDP)									
Current DSA	-6.2	-5.8	-5.4	-4.9	-4.8	-4.3	-4.2	-4.9	-3.4
Previous DSA	-6.3	-5.9	-5.6	-5.1	-4.9	-4.4	-4.4	-5.0	-4.4
Exports (percent GDP)									
Current DSA	23.9	22.1	22.1	21.9	21.8	21.8	21.9	21.9	22.6
Previous DSA	24.9	23.1	23.2	23.0	22.9	22.9	22.9	23.0	22.9
Primary Balance (percent GDP)									
Current DSA	-3.9	-2.8	-2.1	-1.4	-1.5	-1.5	-1.5	-1.8	-1.4
Previous DSA	-3.9	-2.6	-2.1	-1.3	-1.3	-1.4	-1.4	-1.7	-1.3
Revenue and grants (percent GDP)									
Current DSA	14.3	14.9	15.2	15.7	16.0	16.5	16.9	15.9	19.5
Previous DSA	14.3	14.7	15.2	15.6	16.0	16.5	16.9	15.8	19.3
Total expenditure (percent GDP)									
Current DSA	19.8	19.3	18.9	18.6	18.9	19.4	19.8	19.2	22.1
Previous DSA	19.8	19.0	18.9	18.5	18.9	19.4	19.8	19.1	22.0
Overall balance (percent GDP)									
Current DSA	-5.5	-4.5	-3.7	-2.9	-2.9	-2.9	-2.9	-3.3	-2.9
Previous DSA	-5.5	-4.3	-3.7	-2.9	-2.9	-2.9	-2.9	-3.3	-2.9

1/May 2023 Second EFF/ECF Review.
Source: IMF staff estimates and projections

8. **Consistent with the authorities' borrowing plan, the DSA continues to assume that the authorities will continue to maintain a prudent borrowing strategy, maximizing concessional resources to the extent possible, while also accounting for the recent increase in market issuances and updated multilateral financing (Text Table 6-7).** Grant-equivalent financing is expected to decline on average over the long term as a share of GDP as Benin's relative income increases. Key changes from the previous DSA include:

- *Multilateral financing.* The baseline includes financing from the IMF-supported EFF/ECF as well as a possible maximum envelope for the RSF, which would be disbursed over 2024-25 (see below). The DSA also includes financing from the World Bank in line with the latest IDA allocations as well as newly confirmed budget support from the AfDB and AFD.[12] The World Bank provided a US$80 million Cat-DDO in September 2023, which could provide Benin with financing at favorable terms in the event of natural disaster, although it is not included in the baseline given its disbursement being contingent on the materialization such a shocks (see Box 2).

- *Bilateral and commercial financing.* Financing assumptions for bilateral and commercial financing have been updated based on the authorities' borrowing plan and the 2024 debt strategy, which considering disbursements for project financing anticipates financing at longer maturities and some commercial financing.

- *Market financing.* Given the authorities' intent to maintain regular market access, the DSA continues to assume such access but also assumes that the authorities will continue leveraging the SDG financing framework (including through reforms under the Fund-supported RSF) as well as the partial credit guarantee from the AfDB to secure more favorable terms, particularly in the medium term. In addition to the SDG loan over the summer, the framework replaces the US$500 million Eurobond issuance in 2025 with two 15-year US$350 million SDG loans in 2025 and 2027 on terms similar to the recent financing.[13] The authorities have US$150 million remaining in the current AfDB partial credit guarantee and could continue to seek out and leverage such opportunities. In the long term, it is assumed that international market issuances would average 1.2 ppt of GDP per year with terms evenly split between sustainability bonds and Eurobonds. These assumptions are contingent on market conditions, with the potential for additional issuances if conditions improve. The authorities also remain open to additional innovative financing opportunities for climate such as Green/Blue bonds.

- *Domestic financing.* Given the recent SDG financing, a larger portion of public gross financing needs (around 85 percent compared with 60 percent in the previous DSA) will be externally financed, as the authorities use the proceeds to substitute domestic financing. While conditions on the regional market have tightened, Benin's pre-emptive issuances in 2022 (not included in the financing for 2023 under the baseline) provide an important contingency should market

[12] Updated IDA assumptions reflect the IDA20 allocations and the fact that Benin has recently graduated to "gap" country status and is no longer eligible for new grants. They also include updates to the terms of IDA financing, including the assumption that a portion of the allocation will be in the form of shorter (12-year) maturity loans during FY23-25.

[13] SDG financing assumptions are cautious and based on the latest issuance, with a 5.0 percent interest rate and 15-year maturity with scope for improved terms if interest rates improve, compared with Eurobonds which are assumed to have a 6.0 percent interest rate and 11-year maturity (consistent with previous issuances and the authorities' prudent debt strategy).

conditions tighten further (¶8). Over the long term, Benin is also expected to rely more on domestic sources of financing as the domestic debt market deepens.[14]

9. **The Fund-supported RSF is expected to enhance debt sustainability by providing more cost-effective financing and supporting the acceleration of the climate agenda.** The financing with an interest rate of 3.5 percent and maturity of 20 years (with a 10½ grace period) is expected to substitute more costly domestic financing, with the overall path of medium-term fiscal adjustment remaining unchanged. The RSF would thus improve the debt service profile, with a PV of about FCFA 101 billion, compared with a PV of FCFA 115 billion for domestic debt of equivalent amount, based on assumed terms on domestic debt in the DSA. Moreover, the RSF would also support reforms that enhance BoP stability and the population's resilience against climate shocks, limiting the impact of climate change on growth and fiscal and export revenues.

Text Table 6. Benin: Third Review External Borrowing Plan 2023 (Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**909.5**	**100**	**619.9**	**100**
Concessional debt, of which	**530.8**	**58**	**269.0**	**43**
Multilateral debt	408.3	45	193.7	31
Bilateral debt	122.4	13	75.3	12
Non-concessional debt, of which	**378.7**	**42**	**350.9**	**57**
Semi-concessional	118.2	13	90.4	15
Commercial terms	260.5	29	260.5	42

10. **Public debt is projected to decline over the medium to long term as a result of prudent fiscal policy and steady growth**. Debt is expected to be around 54 percent of GDP at end-2023, reflecting fiscal policy accommodation to contain the socio-economic fallout from the protracted COVID-19 pandemic, the war in Ukraine, and mitigation of security risks, public debt is projected to decline to 46 percent by 2033 as fiscal deficits are contained and growth converges to its potential. The debt trajectory is predicated on the authorities implementing a revenue-based fiscal consolidation to ensure convergence to WAEMU regional fiscal norms.

[14] This DSA assumes domestic financing will come mostly in the form of one-to-seven-year bonds with a small portion of longer maturities at rates from 6 to 7 percent, with some upside risks (including to substitute external financing) given recent issuance experience.

Text Table 7. Benin: Third Review External Borrowing Plan 2024
(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2024		PV of new debt in 2024 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**912.0**	**100**	**619.7**	**100**
Concessional debt, of which	**574.2**	**63**	**328.4**	**53**
Multilateral debt	414.1	45	230.1	37
Bilateral debt	160.1	18	98.3	16
Non-concessional debt, of which	**337.8**	**37**	**291.3**	**47**
Semi-concessional	237.8	26	191.3	31
Commercial terms	100.0	11	100.0	16

11. Macro-fiscal projections are realistic (Figures 3-4). The three-year primary adjustment falls at the top quartile for past adjustments in LICs with IMF-supported programs, which remains realistic given that during the period Benin is recovering from large shocks (COVID-19, the Russian war on Ukraine), with adjustments supported reductions in one-off spending and recovery in revenues. The growth path does not exceed those derived from typical fiscal multipliers for LICs. Public and private investment rates are similar to the previous DSA as is the modest contribution of public investment to growth. While unexpected changes in public debt have been large over the last 5-years, these can be explained by significant shocks during the sample period including the 2019 Nigeria border closure and COVID-19. These have been largely driven by the primary deficit and other debt creating flows. In terms of drivers, GDP growth is expected to be debt-reducing in the projections; the real interest rate and primary deficit would be debt-increasing. This is in broadly in line with historical trends, though significant past contributions from residual factors could add to debt. The unanticipated substitution of domestic financing with less costly external financing due to changes in market conditions could lead to higher external debt (but ultimately a more manageable debt service profile), as illustrated by the large residual component of unexpected changes in external debt.

12. The macroeconomic outlook is subject to a number of risks, which remain tilted to the downside. Spillovers from policy shifts in Nigeria and the recent coup in Niger could be more severe than expected, further disrupting trade, increasing prices, and negatively impacting competitiveness. A shift in global risk appetite or further tightening of liquidity conditions on the regional security market could complicate medium-term rollover. Higher than anticipated security outlays could weigh heavily on the budget. Moreover, Benin remains susceptible to natural disasters and acute and chronic climate change risks.

C. Country Classification and Determination of Stress Test Scenarios

13. **Benin's debt carrying capacity continues to be classified as medium.** Based on a calculation of a composite indicator reflecting factors such as the 2022 WB CPIA index and the October 2023 WEO (real growth rates, reserve coverage, remittances, and world growth), Benin has a CI score of 2.98 (Text Table 8). As a result, this DSA continues to use the same external debt burden thresholds and total public benchmarks for countries with medium debt carrying capacity (Text Table 9).

Text Table 8. Benin: Calculation of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.717	1.43	48%
Real growth rate (in percent)	2.719	6.056	0.16	6%
Import coverage of reserves (in percent)	4.052	39.591	1.60	54%
Import coverage of reserves^2 (in percent)	-3.990	15.674	-0.63	-21%
Remittances (in percent)	2.022	0.933	0.02	1%
World economic growth (in percent)	13.520	2.889	0.39	13%
CI Score			2.98	100%
CI rating			Medium	

Text Table 9. Benin: Debt Burden Thresholds and Benchmarks

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

14. **Stress tests generally follow standardized settings, with the addition of tailored stress tests to capture risks related to contingent liabilities, commodity prices, and market financing, and a customized scenario for natural disasters.** Given Benin's high vulnerability to natural disasters and climate change (particularly from flooding and coastal erosion), a customized natural disaster shock has been applied, reflecting adjustments to better tailor the test to Benin's exposure to climate shocks and integrating access to the World Bank Cat-DDO, which could provide access to more favorable financing in the event of such a shock (Box 2). Commodity exports (cotton) make up a significant part of the export base (35 percent of exports excluding reexported products

in 2021), leaving it open to potential price shocks. Finally, outstanding Eurobonds may leave Benin exposed to rollover risk in the event of a change in global risk sentiment—though the current maturity profile mitigates this risk over the next two years.

15. Given Benin's susceptibility to climate risks, an alternative scenario was also calibrated to assess the effects of climate change on debt sustainability over the long term in the event further action is not taken (Box 2). The scenario is informed by shock scenarios in the World Bank Country Climate and Development Report (CCDR) under a pessimistic 'Dry/Hot' scenario and incorporates the dynamics of key macroeconomic variables while excluding RSF disbursements.

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

16. All external debt burden indicators are below their policy-dependent thresholds in the baseline apart from a marginal one-off breach in the debt-service to revenue ratio in 2030 (Table 1, Figure 1). The PV of total PPG external debt to GDP is expected to remain well below the threshold throughout the projection period, averaging 30 percent of GDP in 2023-27 and gradually starting to decline in 2030.[15] The PV of total PPG external debt to GDP will peak at 31 percent of GDP in 2027 (compared with a peak of 30 percent of GDP in the previous DSA). The debt service-to-revenue ratio will temporarily breach the threshold in 2030 at 19 percent (when large Eurobond repayments are falling due), which is discounted from the DSA analysis. However, the PV of debt-to-exports and PV of debt service-to-exports ratios both remain below their thresholds, peaking in 2027 and 2030, respectively.

17. Stress tests highlight Benin's vulnerability to shocks, particularly those related to commodity prices, exports, and natural disasters. All debt-burden indicators breach their thresholds under certain stress tests, with commodity price being the most severe shock across all four indicators. Export disaster shocks also cause significant breaches. These shocks illustrate risks posed by limited economic diversification. The natural disaster shock illustrates the exposure of Benin's debt to climate risks (see Box 2). Although the historical scenario is relatively more severe than the baseline, the calibration period of 2013–2022 captures particularly severe periods in Benin's economy including the impact of COVID-19, the Nigeria border closure, and the 2015 downturn. Moreover, compared with the historical record, continued efforts to mobilize revenues and active debt management are expected to help stabilize debt levels.

18. The granularity assessment indicates that Benin has limited space to absorb shocks (Figure 5). Under the module, which allows qualifying the moderate risk of debt-distress, Benin is

[15] This DSA includes an update to the PV calculation methodology for existing Eurobond debt, which allows users to replace the PV of existing external debt by the nominal debt stock in instances where the grant element of a loan is zero. This change reduced the PV of external debt by an average of 0.8 ppt of GDP over the projection period and a peak of 2.5 ppt of GDP in 2024.

assessed as having limited space in the debt service-to-revenue and debt service-to- export indicators, which would breach the threshold under a median observed shock scenario, resulting in a downgrade to high-risk. This compares with the previous DSA, where only the debt service-to-revenue indicator had limited space to absorb shocks.

19. The market-financing module suggests that market risks are moderate (Figure 6). Although EMBI spreads are above the benchmark, reflecting the recent global financial market volatility, gross financing needs remain well below the respective benchmark, and potential for heightened liquidity needs is moderate. The debt-service to revenue and debt service-to-export ratios would exceed their thresholds in 2030 under the market financing shock, given the repayment profile discussed above (which by design does not incorporate possible liability management operations that would help manage these risks).

B. Total Public Debt Sustainability

20. Total public PPG remains below its respective benchmark in the baseline (Figure 2 and Table 2). The present value of public debt over the next 10 years averages 40 percent, well below the 55 percent benchmark but slightly higher than the previous DSA at 39 percent, given the reliance on more market-based financing (albeit lower than if the authorities were only able to access financing in the regional market).

21. Stress tests indicate that public debt is most vulnerable to commodity price shocks and natural disasters. For the PV of debt-to-GDP ratio, a commodity price shock would be the most extreme shock, with the PV of debt-to-GDP breaching the benchmark from 2027 onwards and significant increases in the debt-to-revenue ratio. A natural disaster shock would also increase debt service-to-revenue ratios.

Box 2. Benin: Debt Sustainability and Climate Change[1]

This box draws on the World Bank CCDR and other tools to illustrate the cost of inaction in climate adaption in Benin. It finds that a climate shock would undermine the country's debt sustainability.

Tailored scenarios suggest that Benin's debt sustainability, while relatively resilient to one-off shocks, could be significantly imperiled in the long term absent decisive climate action. Climate change risks are incorporated into the DSA in a twofold manner through (i) a customized natural disaster stress test (calibrated in line with the shock used for the IMF DIGNAD[2] model) and (ii) an alternative no-adaptation scenario (based on World Bank CCDR simulations), reflecting recommendations from the draft RSF Guidance Note to account for long-term structural risks. While macro-fiscal assumptions underlying the DSA baseline scenario include estimates of the authorities' climate-related public investment, the authorities are not expected to take additional climate-related actions that would jeopardize PPG debt sustainability.

The natural disaster customized stress test reveals that the PV of debt-to-GDP ratio would increase in the event of a natural disaster, with the WB-financed contingent financing line mitigating the effect on debt sustainability. The shock is calibrated to simulate a catastrophic flood event like the one experienced by Benin in 2010, assuming a 4 percent one-off shock to external PPG debt-to-GDP ratio in the second year of the projection period, a 3 percent reduction of GDP growth, and a 3.5 percent reduction of export growth. Specific to Benin, the disbursement of the World Bank's Catastrophe Deferred Drawdown Option (Cat DDO), contingent financing upon such a shock (see ¶8), is included in this stress test. With a maturity of 30 years (5 years grace period) and an interest rate of 2.5 percent, the Cat DDO financing line would provide immediate liquidity on favorable terms while other funds are being mobilized. Nevertheless, even with the mitigating role of the Cat-DDO the PV of PPG debt-to-GDP ratio would be about 5.2 ppt higher over the long term than in the baseline (Figure 2).

Under the no-adaptation scenario, public debt goes on an unsustainable trajectory (Figures 7-8), highlighting the potential cost of not undertaking decisive adaptation policies today. Projections from the World Bank CCDR[3] for pessimistic (hot/dry) simulations were used to reflect adverse climate impacts, totaling real GDP losses of up to -16 percent of GDP by 2043, mainly through labor heat stress and productivity, with lower production impacting exports and revenues. While reduced crop yields and the impact of heat stress on labor productivity are the largest contributors to GDP losses, the increased costs of physical capital repair and renewal due to inland flooding and rising sea levels are also included in the model.[4] Despite the adherence to the WAEMU fiscal deficit ceiling of 3 percent in the CCDR simulation (the CCDR baseline projections were aligned with the EFF/ECF), the public debt burden under this scenario would increase dramatically and quickly become unsustainable, with the PV of debt-to-GDP ratio continuously above its threshold starting in 2030, mainly due to rising GDP losses along the projection horizon in the absence of strong adaptation policies.

1/ Prepared by Markus Specht (AFR)
2/Debt, Investment, Growth, and Natural Disasters Model (see PN Annex IV).
3/ Publication forthcoming.
4/ The CCDR MANAGE is a single-country recursive dynamic computable general equilibrium (CGE) model, designed to focus on energy, emissions, and climate change. Climate change is likely to have direct and indirect effects on the Beninese economy. The former are introduced in the macro and micro models through damage vectors (i.e., channels such as sectoral and labor productivity, labor, and capital supplies) estimated using a biophysical model (see CCDR chapter 3.1). The Benin CCDR models 10 damage channels: 1. heat stress and labor productivity, 2. heat-related human health shock, 3. Water, sanitation, and hygiene, 4. clean cooking, 5. livestock yields, 6. rainfed crops, 7. erosion, 8. inland flooding, 9. sea level rise and storm surge and 10. tourism. The modeling of the channels is based on country-specific climate scenarios. These estimated damages are subsequently introduced as shocks into the CGE to estimate the effect on GDP and other macroeconomic aggregates. Microsimulations are used to model the subsequent impact on poverty.

RISK RATING AND VULNERABILITIES

22. This DSA finds that Benin remains at moderate risk of external and overall debt distress, unchanged from the previous DSA. Although external debt indicators have increased more due to increased reliance on external borrowing on comparatively more favorable terms than the regional market, they remain below their high-risk thresholds and benchmarks in the baseline, apart from a one-off breach to the debt service-to-revenue indicator in 2030, last observed in the December 2022 DSA. Debt levels, though relatively manageable, remain vulnerable to shocks. As evidenced by the high debt service to revenues ratio, large amortization payments and the low revenue base may pose liquidity risks. Lower than expected revenues or exports, including due to policy implementation lags or if efforts to boost competitiveness take time to bear fruit, as well as further shifts in market sentiment that increase borrowing and rollover costs could heighten debt risks.

23. Sustained revenue mobilization efforts along with a prudent borrowing and debt management strategy will be important for mitigating the risk of debt distress. As highlighted by the granularity assessment, Benin has limited space to absorb shocks owing to the narrow space between the debt service ratios and high-risk thresholds in years where large Eurobond bullet repayments are due. Continuing proactive liability management to facilitate the rollover of these payments, maximizing concessional borrowing, and implementing measures to bring tax revenues closer to Benin's potential will help mitigate risks to debt distress. The authorities should also continue to leverage their existing SDG financing framework to access financing, including climate-related, on more favorable terms while ensuring a manageable external and domestic financing mix.

Authorities' Views

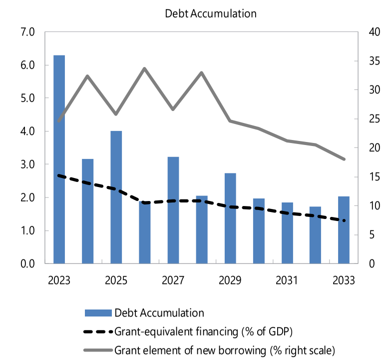
24. The authorities agree with the assessment that Benin remains at moderate risk of external debt distress. They are of the view that domestic financing conditions will improve structurally in the medium term (with longer maturities and lower costs). They emphasize that the debt strategy will would continue to ensure that financing needs are met at the lowest possible cost—borrowing on the international capital market would only occur at more favorable conditions than those on the regional security market. The authorities are of the view that currency risk from external borrowing is limited by the fact that a large share of borrowing is conducted in euros to which the CFA franc is pegged. They remain committed to preserving debt sustainability, mitigating refinancing risks and limiting borrowing costs through a combination of revenue mobilization, active debt management and prudent borrowing.

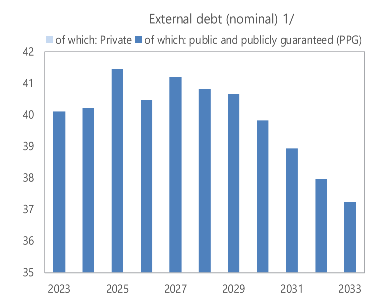
Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2020–2043

(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	28.4	36.8	37.6	40.1	40.2	41.5	40.5	41.2	40.8	37.2	28.1	22.2	39.9
of which: public and publicly guaranteed (PPG)	28.4	36.8	37.6	40.1	40.2	41.5	40.5	41.2	40.8	37.2	28.1	22.2	39.9
Change in external debt	3.2	8.4	0.8	2.5	0.1	1.2	-1.0	0.7	-0.4	-0.7	-1.2		
Identified net debt-creating flows	0.7	2.6	8.6	5.6	4.8	4.3	4.2	3.9	3.7	3.7	5.0	5.4	4.0
Non-interest current account deficit	1.3	3.4	5.4	4.9	4.5	4.0	3.8	3.4	3.1	2.7	2.7	4.2	3.4
Deficit in balance of goods and services	2.8	4.4	6.3	6.0	5.8	5.3	5.2	4.8	4.7	4.3	4.3	5.6	4.9
Exports	22.4	23.5	23.9	22.1	22.1	21.9	21.8	21.8	21.9	22.3	22.3		
Imports	25.1	27.8	30.2	28.1	27.9	27.2	27.0	26.6	26.6	26.6	26.6		
Net current transfers (negative = inflow)	-1.8	-1.3	-1.2	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.6	-1.0
of which: official	-1.2	-0.5	0.0	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		
Other current account flows (negative = net inflow)	0.3	0.3	0.2	-0.2	-0.3	-0.2	-0.3	-0.3	-0.5	-0.5	-0.5	0.2	-0.4
Net FDI (negative = inflow)	1.0	1.7	1.9	1.7	1.6	1.6	1.7	1.8	1.9	2.1	2.8	1.6	1.9
Endogenous debt dynamics 2/	-1.6	-2.5	1.3	-1.0	-1.3	-1.3	-1.4	-1.3	-1.3	-1.1	-0.6		
Contribution from nominal interest rate	0.5	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9		
Contribution from real GDP growth	-0.9	-1.8	-2.3	-1.9	-2.2	-2.2	-2.3	-2.2	-2.3	-2.1	-1.5		
Contribution from price and exchange rate changes	-1.2	-1.5	2.9	...	...	...	...	...	...	...	...		
Residual 3/	2.5	5.8	-7.8	-3.0	-4.7	-3.1	-5.2	-3.1	-4.1	-4.4	-6.2	-2.7	-4.1
of which: exceptional financing	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	26.5	29.0	29.4	30.8	30.2	31.0	30.7	29.0	24.1		
PV of PPG external debt-to-exports ratio	...	...	110.9	131.6	132.9	140.7	138.3	142.1	140.5	130.1	107.9		
PPG debt service-to-exports ratio	5.5	8.7	8.7	9.4	11.6	11.7	10.9	9.8	10.7	11.5	9.7		
PPG debt service-to-revenue ratio	9.7	15.5	15.0	14.9	17.9	17.3	15.8	13.7	14.5	13.8	11.3		
Gross external financing need (Billion of U.S. dollars)	0.5	1.3	1.6	1.7	1.9	1.9	2.0	2.0	2.2	3.2	6.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	7.2	6.3	5.6	6.0	5.9	6.0	5.9	6.0	5.9	5.4	5.5	5.9
GDP deflator in US dollar terms (change in percent)	4.9	5.4	-7.3	6.8	3.3	2.3	2.2	1.6	1.6	2.0	2.0	-0.6	2.5
Effective interest rate (percent) 4/	2.1	3.0	2.0	2.5	2.5	2.4	2.5	2.4	2.5	2.6	3.3	1.9	2.5
Growth of exports of G&S (US dollar terms, in percent)	-2.3	18.6	0.1	4.3	9.7	7.4	8.0	7.7	7.8	8.2	7.5	9.1	7.9
Growth of imports of G&S (US dollar terms, in percent)	-8.6	25.1	6.9	5.0	8.7	5.7	7.6	6.0	7.6	8.0	7.5	8.4	7.3
Grant element of new public sector borrowing (in percent)	...	...	...	24.6	32.4	25.8	33.6	26.6	33.0	18.0	10.0	...	25.8
Government revenues (excluding grants, in percent of GDP)	12.7	13.2	13.8	13.9	14.3	14.7	15.1	15.6	16.1	18.5	19.2	12.6	16.1
Aid flows (in Billion of US dollars) 5/	0.3	0.2	0.1	0.8	0.8	0.8	0.8	0.8	0.8	0.5	0.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.7	2.4	2.2	1.8	1.9	1.9	1.3	0.8	...	1.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	32.3	40.0	33.5	43.6	35.3	42.5	30.1	31.4	...	35.3
Nominal GDP (Billion of US dollars)	16	18	17	20	22	23	25	27	29	43	90		
Nominal dollar GDP growth	8.9	12.9	-1.5	12.8	9.6	8.4	8.3	7.7	7.6	8.0	7.5	4.9	8.6
Memorandum items:													
PV of external debt 7/	...	...	26.5	29.0	29.4	30.8	30.2	31.0	30.7	29.0	24.1		
In percent of exports	...	...	110.9	131.6	132.9	140.7	138.3	142.1	140.5	130.1	107.9		
Total external debt service-to-exports ratio	5.5	8.7	8.7	9.4	11.6	11.7	10.9	9.8	10.7	11.5	9.7		
PV of PPG external debt (in Billion of US dollars)			4.6	5.7	6.3	7.2	7.6	8.4	9.0	12.5	21.7		
(PVt-PVt-1)/GDPt-1 (in percent)				6.3	3.2	4.0	1.9	3.2	2.1	2.0	0.9		
Non-interest current account deficit that stabilizes debt ratio	-1.9	-5.0	4.6	2.4	4.4	2.8	4.8	2.6	3.5	3.4	4.0		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

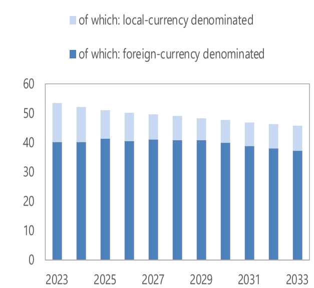
Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-43

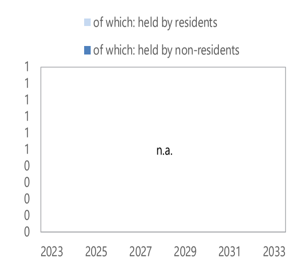
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	46.1	50.3	54.2	53.5	52.3	51.1	50.1	49.6	49.0	45.8	42.3	38.0	49.1
of which: external debt	28.4	36.8	37.6	40.1	40.2	41.5	40.5	41.2	40.8	37.2	28.1	22.2	39.9
Change in public sector debt	4.9	4.1	3.9	-0.7	-1.3	-1.2	-0.9	-0.6	-0.5	-0.6	-0.2		
Identified debt-creating flows	1.4	3.9	7.1	-0.4	-0.7	-1.0	-0.9	-0.7	-0.7	-0.5	-0.2	2.4	-0.7
Primary deficit	2.7	3.5	3.9	2.8	2.1	1.3	1.4	1.5	1.5	1.4	1.0	2.4	1.6
Revenue and grants	14.4	14.1	14.3	14.8	15.0	15.4	15.7	16.3	16.7	19.1	19.9	13.4	16.8
of which: grants	1.7	0.9	0.5	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6		
Primary (noninterest) expenditure	17.1	17.6	18.2	17.6	17.1	16.8	17.1	17.7	18.2	20.6	20.9	15.8	18.4
Automatic debt dynamics	-3.3	0.5	-0.2	-3.1	-2.8	-2.4	-2.3	-2.2	-2.2	-2.0	-1.2		
Contribution from interest rate/growth differential	-0.9	-2.0	-2.9	-3.1	-2.8	-2.4	-2.3	-2.2	-2.2	-2.0	-1.2		
of which: contribution from average real interest rate	0.7	1.1	0.0	-0.3	0.2	0.5	0.5	0.6	0.6	0.6	1.0		
of which: contribution from real GDP growth	-1.5	-3.1	-3.0	-2.9	-3.0	-2.9	-2.9	-2.8	-2.8	-2.6	-2.2		
Contribution from real exchange rate depreciation	-2.4	2.5	2.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	1.9	-0.1	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	2.0	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.5	0.3	-3.2	-0.3	-0.5	-0.2	0.0	0.2	0.2	0.0	0.0	1.0	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	42.9	42.8	41.6	40.6	40.0	39.7	39.3	37.9	38.5		
PV of public debt-to-revenue and grants ratio	...	...	300.1	289.4	277.9	262.9	254.9	243.8	234.6	198.1	194.0		
Debt service-to-revenue and grants ratio 3/	42.5	76.7	60.7	40.2	33.6	37.0	24.8	31.1	22.0	22.9	26.2		
Gross financing need 4/	10.8	14.2	16.0	8.7	7.1	7.1	5.3	6.5	5.2	5.8	6.2		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	7.2	6.3	5.6	6.0	5.9	6.0	5.9	6.0	5.9	5.4	5.5	5.9
Average nominal interest rate on external debt (in percent)	2.1	2.8	2.1	2.5	2.5	2.4	2.5	2.4	2.5	2.7	3.4	1.9	2.5
Average real interest rate on domestic debt (in percent)	3.5	7.2	8.7	1.4	1.5	3.2	3.5	4.1	4.2	4.0	4.3	4.9	3.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.8	9.3	8.0	...	...	...	...	...	...	...	...	3.4	...
Inflation rate (GDP deflator, in percent)	2.9	1.6	4.1	3.9	3.9	2.3	2.0	1.5	1.5	2.0	2.0	1.1	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	36.7	10.3	9.7	2.0	3.0	4.2	8.3	9.6	9.0	8.3	5.2	9.5	7.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.2	-0.7	0.0	3.4	3.3	2.5	2.4	2.0	2.0	2.0	1.3	-1.0	2.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

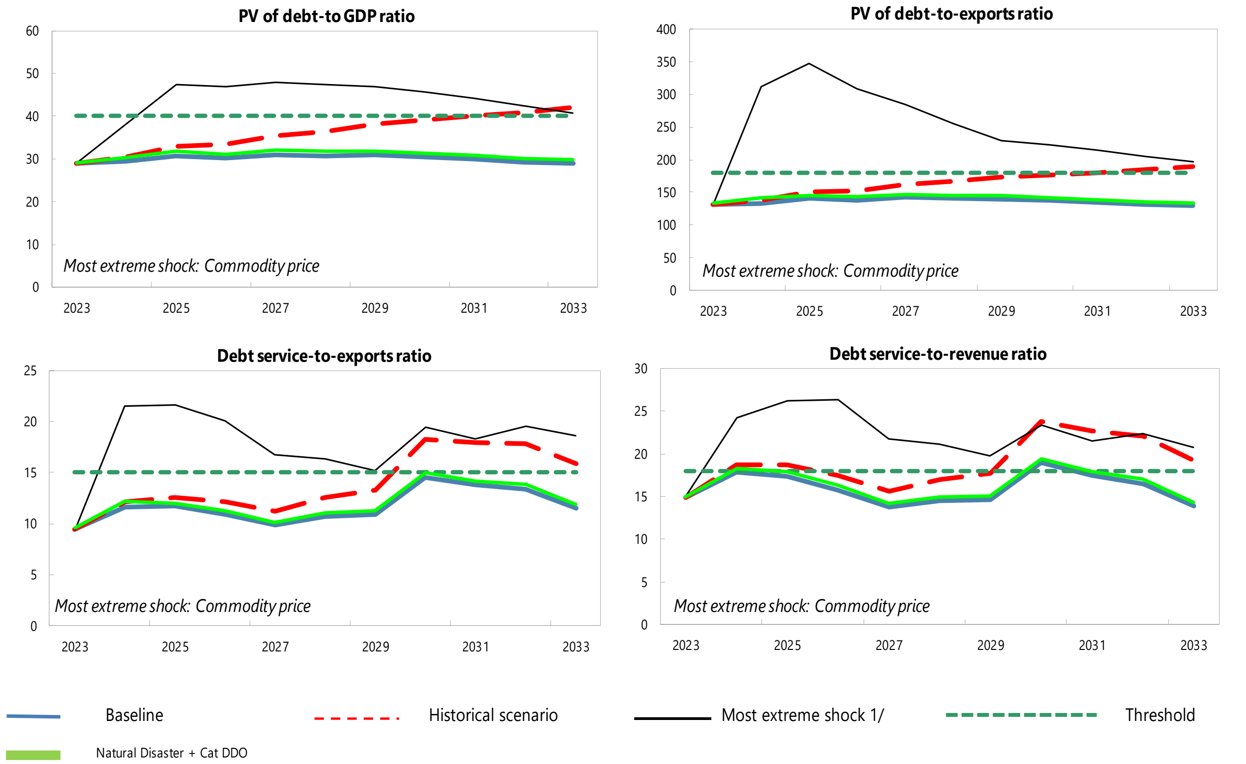
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Benin: Indicators of Public Guaranteed External Debt Under Alternatives Scenarios, 2023–2033[2]



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.7%	2.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	7	7

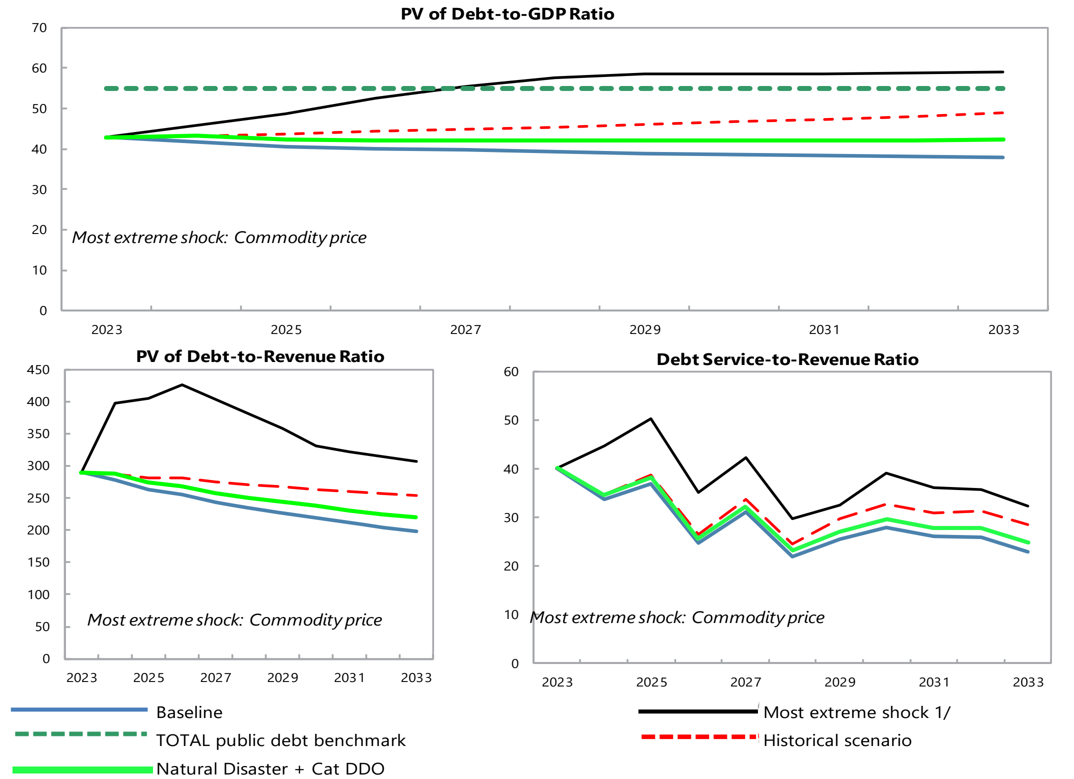
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-ff breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF Research Department.

Figure 2. Benin: Indicators of Public Debt Under Alternatives Scenarios, 2023–2033



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	72%	72%
Domestic medium and long-term	26%	26%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.7%	2.7%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.2%	3.2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033 (percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	29	29	31	30	31	31	31	30	30	29	29
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	29	30	33	33	35	36	38	39	**40**	**41**	**42**
Natural Disaster Shock with Cat DDO	29	30	32	31	32	32	32	31	31	30	30
B. Bound Tests											
B1. Real GDP growth	29	30	33	32	33	33	33	33	32	31	31
B2. Primary balance	29	31	35	34	35	35	35	34	34	33	33
B3. Exports	29	32	37	37	37	37	37	36	35	35	34
B4. Other flows 3/	29	30	32	32	32	32	32	32	31	30	30
B5. Depreciation	29	37	36	35	36	36	36	36	35	34	34
B6. Combination of B1-B5	29	33	34	33	34	34	34	34	33	32	32
C. Tailored Tests											
C1. Combined contingent liabilities	29	35	36	35	36	37	37	36	35	35	34
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	29	38	**47**	**47**	**48**	**47**	**47**	**46**	**44**	**42**	**41**
C4. Market Financing	29	33	34	34	35	34	34	34	33	32	32
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	132	133	141	138	142	141	140	138	135	132	130
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	132	137	150	153	162	166	173	177	**181**	**184**	**189**
Natural Disaster Shock with Cat DDO	133	141	145	143	147	145	144	142	139	135	134
B. Bound Tests											
B1. Real GDP growth	132	133	141	138	142	141	140	138	135	132	130
B2. Primary balance	132	138	159	156	160	158	158	155	152	148	146
B3. Exports	132	165	**220**	**216**	**220**	**216**	**214**	**210**	**205**	**199**	**195**
B4. Other flows 3/	132	136	148	145	148	147	146	143	140	137	135
B5. Depreciation	132	133	129	127	132	130	130	128	126	123	122
B6. Combination of B1-B5	132	150	143	159	163	161	161	158	155	151	149
C. Tailored Tests											
C1. Combined contingent liabilities	132	157	164	161	165	167	166	162	159	156	153
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	132	**312**	**347**	**308**	**284**	**255**	**230**	**223**	**215**	**206**	**197**
C4. Market Financing	132	133	141	139	143	141	140	137	134	131	129
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	9	12	12	11	10	11	11	15	14	13	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	12	13	12	11	13	13	**18**	**18**	**18**	**16**
Natural Disaster Shock with Cat DDO	10	12	12	11	10	11	11	15	14	14	12
B. Bound Tests											
B1. Real GDP growth	9	12	12	11	10	11	11	15	14	13	11
B2. Primary balance	9	12	12	12	11	12	12	**15**	15	14	13
B3. Exports	9	13	**16**	**15**	14	**15**	**15**	**20**	**19**	**19**	**17**
B4. Other flows 3/	9	12	12	11	10	11	11	15	14	14	12
B5. Depreciation	9	12	12	11	9	10	11	14	13	13	11
B6. Combination of B1-B5	9	12	13	13	11	12	12	**17**	**16**	**16**	13
C. Tailored Tests											
C1. Combined contingent liabilities	9	12	12	12	11	11	12	**15**	15	14	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	9	**21**	**22**	**20**	**17**	**16**	**15**	**19**	**18**	**20**	**19**
C4. Market Financing	9	12	12	11	10	11	14	**17**	14	13	11
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	15	18	17	16	14	14	15	**19**	17	16	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	15	**19**	**19**	18	16	17	18	**24**	**23**	**22**	**19**
Natural Disaster Shock with Cat DDO	15	**18**	18	16	14	15	15	**19**	18	17	14
B. Bound Tests	15	**18**	18	16	14	15	15	**19**	18	17	14
B1. Real GDP growth	15	**19**	**19**	17	15	16	16	**20**	**19**	18	15
B2. Primary balance	15	18	18	17	15	16	16	**20**	**18**	18	15
B3. Exports	15	**18**	**18**	17	15	16	16	**20**	**19**	**18**	16
B4. Other flows 3/	15	18	17	16	14	15	15	**19**	18	17	14
B5. Depreciation	15	**22**	**22**	**19**	17	18	18	**23**	**21**	**20**	16
B6. Combination of B1-B5	15	**19**	**19**	17	15	16	16	**21**	**19**	**19**	15
C. Tailored Tests											
C1. Combined contingent liabilities	15	18	**19**	17	15	15	16	**20**	**18**	17	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	15	**24**	**26**	**26**	**22**	**21**	**20**	**23**	**21**	**22**	**21**
C4. Market Financing	15	18	17	16	15	15	**19**	**22**	18	16	14
Threshold	18	18	18	18	18	18	18	18	18	18	18

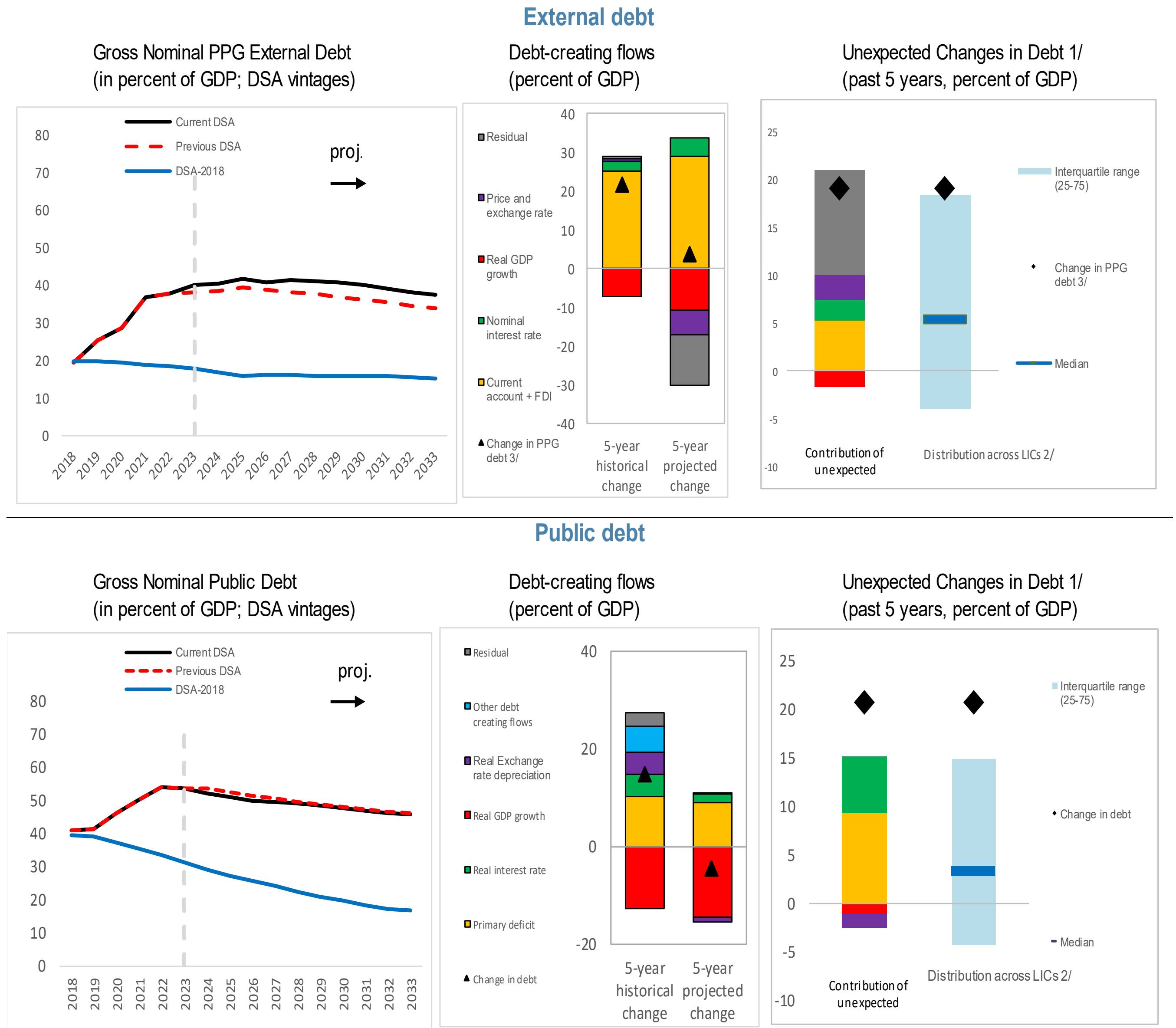
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Benin: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2033 (percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
					PV of Debt-to-GDP Ratio						
Baseline	43	42	41	40	40	39	39	39	38	38	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	43	43	44	44	45	45	46	47	47	48	49
Natural Disaster Shock with Cat DDO	43	43	42	42	42	42	42	42	42	42	42
B. Bound Tests											
B1. Real GDP growth	43	44	45	45	46	46	47	47	48	48	49
B2. Primary balance	43	43	46	45	45	44	44	43	43	42	42
B3. Exports	43	44	47	46	45	45	44	44	43	43	42
B4. Other flows 3/	43	42	42	41	41	41	40	40	39	39	39
B5. Depreciation	43	48	45	43	42	40	38	37	35	34	33
B6. Combination of B1-B5	43	41	43	42	41	41	40	39	39	38	38
C. Tailored Tests											
C1. Combined contingent liabilities	43	50	48	47	47	46	45	45	44	44	43
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	43	46	49	52	**55**	**57**	**59**	**58**	**59**	**59**	**59**
C4. Market Financing	43	42	41	40	40	39	39	38	38	38	38
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	289	278	263	255	244	235	227	219	211	204	198
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	289	288	282	281	275	270	267	263	260	256	254
Natural Disaster Shock with Cat DDO	40	35	38	26	32	23	27	30	28	28	25
B. Bound Tests											
B1. Real GDP growth	289	291	290	287	280	275	272	267	262	258	255
B2. Primary balance	289	289	298	288	275	264	254	244	234	226	218
B3. Exports	289	293	303	292	279	268	258	248	238	229	220
B4. Other flows 3/	289	283	273	264	252	243	235	226	218	210	203
B5. Depreciation	289	323	295	277	257	239	224	208	194	181	171
B6. Combination of B1-B5	289	277	276	266	253	242	232	223	213	205	198
C. Tailored Tests											
C1. Combined contingent liabilities	289	331	312	302	288	274	265	254	244	235	227
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	289	397	405	427	404	381	358	331	322	314	307
C4. Market Financing	289	278	263	255	245	236	227	218	210	203	197
					Debt Service-to-Revenue Ratio						
Baseline	40	34	37	25	31	22	26	28	26	26	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	40	35	39	27	34	25	30	33	31	31	28
Natural Disaster Shock with Cat DDO	40	35	38	26	32	23	27	30	28	28	25
B. Bound Tests											
B1. Real GDP growth	40	35	40	27	34	25	30	32	31	31	28
B2. Primary balance	40	34	38	27	33	26	30	30	28	28	25
B3. Exports	40	34	38	26	32	23	27	29	27	27	25
B4. Other flows 3/	40	34	37	25	31	22	26	28	26	26	23
B5. Depreciation	40	35	41	29	34	26	29	33	31	30	26
B6. Combination of B1-B5	40	33	37	25	31	22	28	28	26	26	23
C. Tailored Tests											
C1. Combined contingent liabilities	40	34	40	27	33	35	28	30	28	29	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	40	45	50	35	42	30	33	39	36	36	32
C4. Market Financing	40	34	37	25	32	23	30	31	26	26	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Benin: Drivers of Debt Dynamics – Baseline Scenario



Sources: Country authorities; and staff estimates and projections.

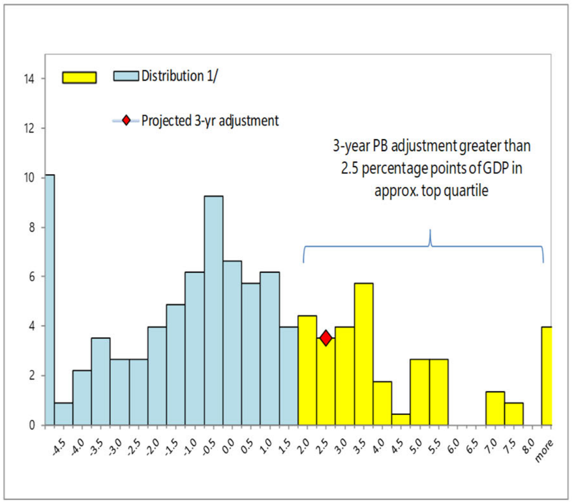
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

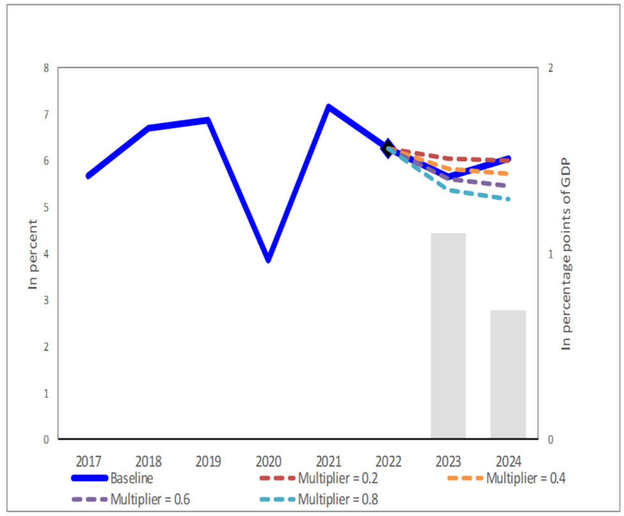
Figure 4. Benin: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



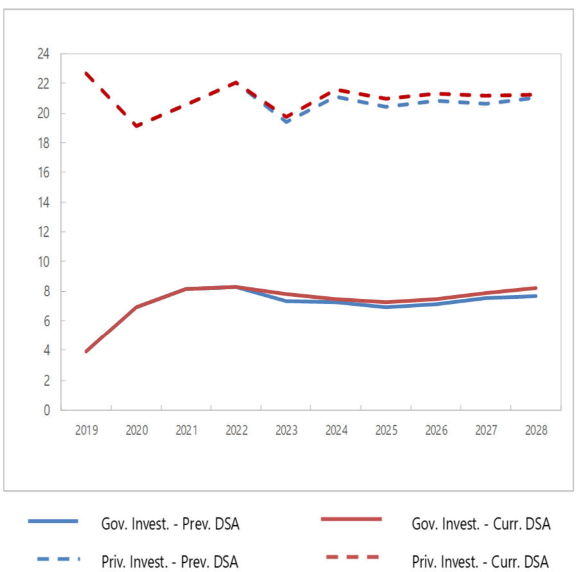
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

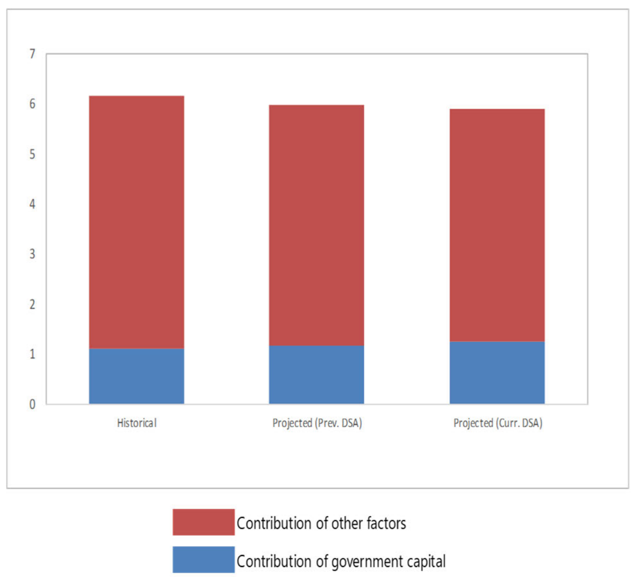


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

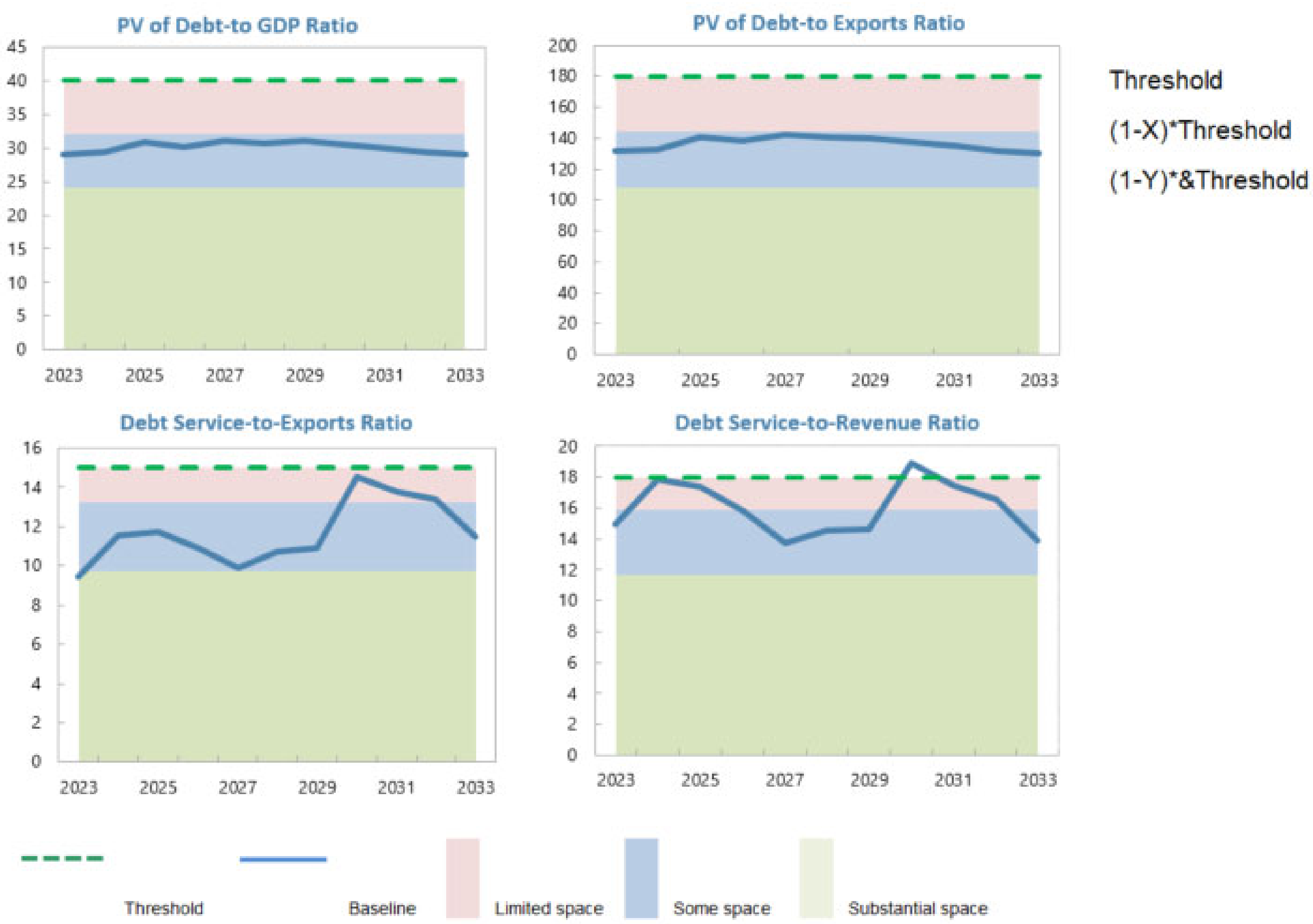


Contribution to Real GDP growth
(percent, 5-year average)



Sources: Country authorities; and staff estimates and projections

Figure 5. Benin: Qualification of the Moderate Category, 2023–2033 1/



Sources: Country authorities; and staff estimates and projections.

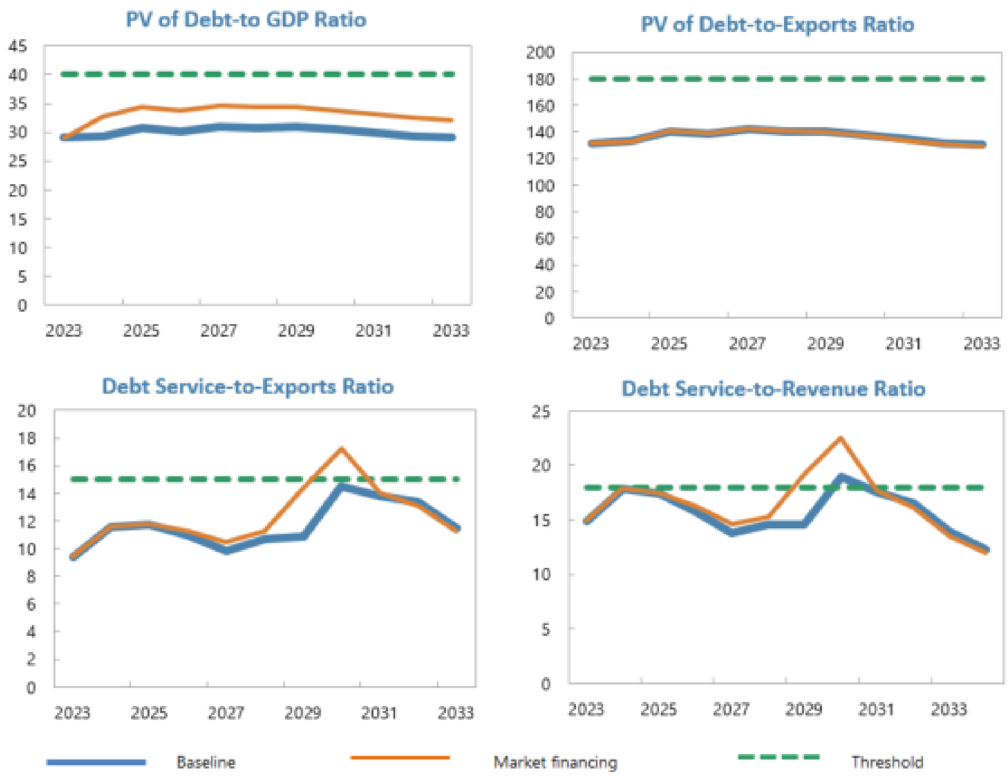
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Benin: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	9	736
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

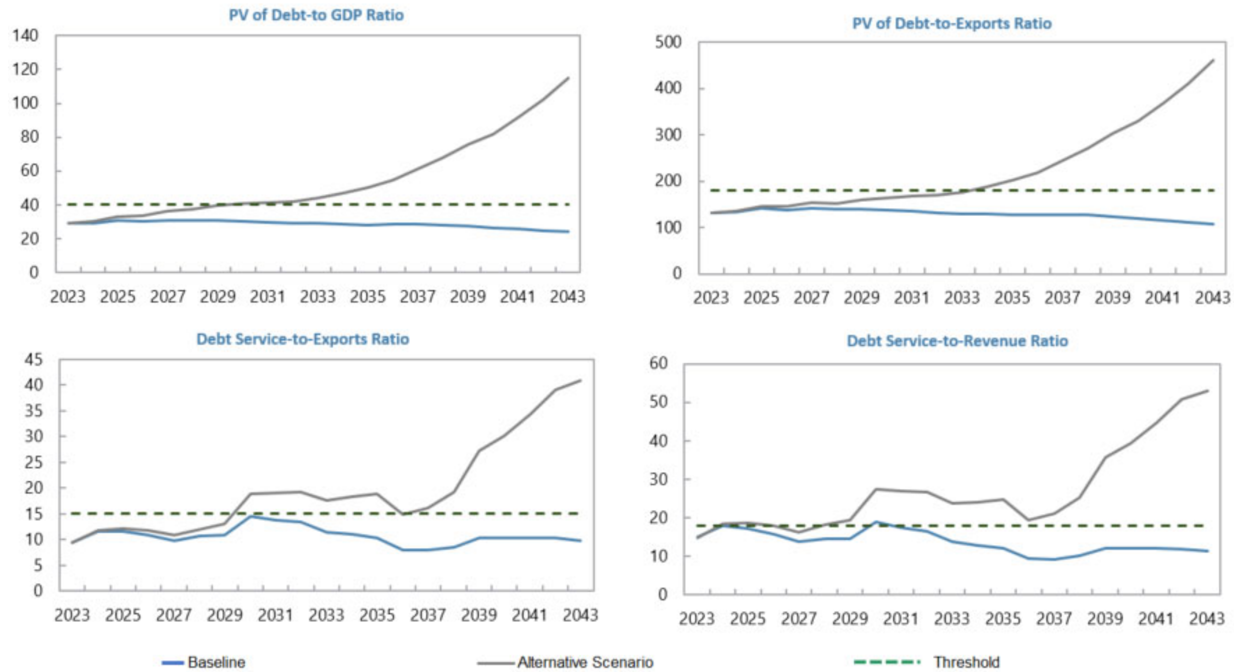
1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond to the latest available data.



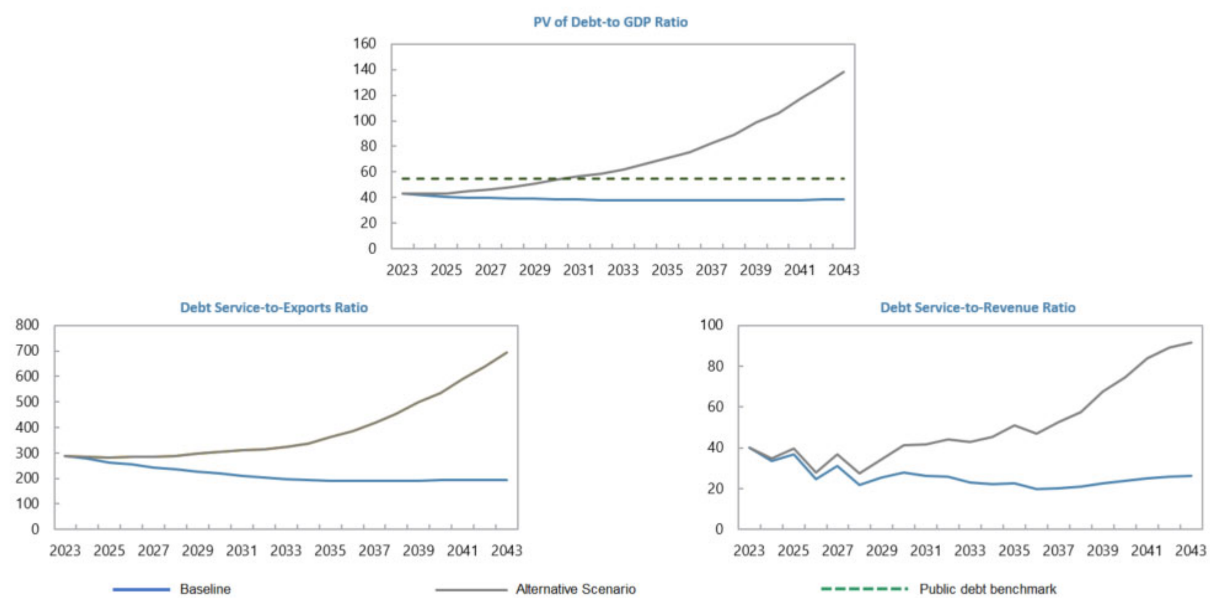
Sources: Country authorities; and staff estimates and projections.

Figure 7. Benin: Indicators of Public and Publicly Guaranteed External Debt Under a Pessimistic Climate Change Scenario, 2023–43



Sources: Country authorities; World Bank CCDR; and IMF staff estimates and projections.

Figure 8. Benin: Indicators of Public Debt Under a Pessimistic Climate Scenario, 2023–43



Sources: Country authorities; World Bank CCDR; and IMF staff estimates and projections.

BENIN

November 30, 2023

THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. **Despite its low contributions to greenhouse gas (GHG) emissions, Benin is one of the most vulnerable countries to climate change.** Benin's per capita emissions are among the lowest in the world. It contributes only 0.05 percent of global GHG emissions and is ranked 149 out of 188 countries for its per capita emissions. In 2021, its GHG emissions were 5 percent of South Africa's, and the second lowest of all West Africa Economic and Monetary Union (WAEMU) countries.[1] While GHG emissions are expected to increase as the country develops, and mitigation measures should be considered in order to avoid carbon lock-ins, Benin's main challenge is its vulnerability to climatic shocks. The country ranks 152 out of 181 countries for extreme climate vulnerability (181 being the most vulnerable).[2] Climate change is therefore set to have a significant impact on Benin's most vulnerable population and key economic sectors in the coming decades.

2. **The impacts of climate change are already visible and are expected to worsen over time with increased temperatures, greater weather variability, and more extreme weather events.**[3] Under a 2.7°C global warming scenario (i.e. under

[1] Benin is part of the WAEMU together with Burkina Faso, Cote d'Ivoire Guinea-Bissau, Mali, Niger, Senegal, Togo.

[2] See ND-GAIN Country Index (University of Notre Dame Global Adaptation Index) (dashboard), University of Notre Dame, Notre Dame, IN, https://gain.nd.edu/our-work/country-index/.

[3] World Bank Benin Country Climate and Development Report (forthcoming, 2023). The report uses the World Bank guidance for the selection of global climate scenarios for CCDR analyses. These include SSP2-4.5, SSP3-7.0 for adaptation; and SSP3-7.0 GCMs and SSP1-1.9 GCMs for mitigation.

current policies), by 2070 Benin is expected to have one of the largest exposures to the most extreme temperatures by percentage of landmass, with 98 percent of its territory expected to be impacted.[4] Future dry and wet periods are likely to become more extreme, with more droughts and a higher risk of floods expected. Floods are already becoming increasingly severe and more destructive: recurrent floods in urban areas such as Cotonou, Porto Novo, and Parakou pose significant challenges to the inadequate and insufficient water supply, sanitation, and waste collection systems. Droughts will continue to affect Benin, with impacts felt in the agriculture and water resources sectors. The country's coast already has one of the highest rates of coastal erosion in the Gulf of Guinea.[5]

3. **Climate change's impact is magnified by high levels of poverty and inequality.** Climate change impacts are asymmetric: poor households are generally more exposed to air, water, and soil pollution and to rising temperatures, uneven rainfall, and other extreme weather events. In addition, poor households rely on low-quality public health services and have fewer financial resources to cope with damage. High exposure to shocks poses serious challenges for poverty reduction, with negative spillover effects on the labor productivity and well-being of households. Increasing temperatures and floods will also have an impact on the spread of infectious diseases, such as malaria. Social safety nets are still nascent in Benin and do not yet account for the climate dimension, while most of the health and education infrastructure is vulnerable to climatic shocks.

4. **Adapting to climate change requires a resilient growth model.** Many sectors relevant to climate action (such as agriculture, disaster-risk management, energy, human health, social protection, transport, tourism, urban planning, water, and sanitation) are also critical for growth. The negative impact[6] -particularly in outdoor sectors such as agriculture - could be large if no action is taken. Without any additional adaptation effort, modelling estimates that average annual GDP losses will increase over time and could reach up to 19 percent of GDP by 2050. The estimated loss of real GDP due to climate change increases from an average range of 7-9 percent in the 2030s to 11-19 percent by 2050 compared to the baseline and across simulated climate scenarios. This entails an equivalent loss in real per capita income. Between half a million to 1 million additional people would remain in poverty by 2050 in the absence of adaptation action.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

5. **Benin has established its climate change commitments and strategic objectives**. The country's commitments to climate action are set out in its Nationally Determined Contributions (NDC), updated in 2021. It has also made important efforts to establish a climate

[4] Lenton, T.M., Xu, C., Abrams, J.F. *et al.* Quantifying the human cost of global warming. *Nat Sustain* (2023).

[5] Note that potential catastrophic impacts and tipping points that are not easily captured through existing estimates may pose the biggest future threats. An example refers to the West African Monsoon.

[6] Estimates are from World Bank Benin Country Climate and Development Report (forthcoming, 2023).

change legal and policy framework that supports NDC implementation. The Law on Climate Change was enacted in 2018, the National Adaptation Plan (NAP, 2022) outlines key adaptation measures, and the National Climate Change Management Policy (PNGCC, 2021-2030) aims to guide Benin towards becoming a climate-resilient country with sufficient adaptive capacity and mechanisms to respond to climate risks and ensure low-carbon growth.

6. Adaptation is a priority for Benin. The NDC highlights adaptation as a priority given Benin's vulnerability and development objectives. The NDC considers eight sectors for adaptation (agriculture, water resources, forestry, coastal areas, tourism, energy, health, urban planning and infrastructure) and indicates key objectives to meet for 2025, 2030 and 2050. Investment needs up to 2030 were estimated at approximately US$ 1,796 million, of which US$ 578 million (32 percent) would be provided by the government and the remaining US$ 1,217 from international support (68 percent).[7] The National Adaptation Plan (2022) also outlines key adaptation measures for the country. The NAP includes eight key priority sectors which are considered most vulnerable to climate change in alignment with the NDC. It presents priority adaptation measures for each target sector. Its vision is to achieve resilient and decarbonized economic development and growth by 2030, with adaptive capacity and early warning systems in place, and institutions, organizations, the private sector, and citizens adopting climate-sensitive approaches and behavior. The total cost of adaptation options for the eight targeted sectors is estimated at US$4,240 million over the 10-year horizon, equivalent to 4 percent of 2023 GDP.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

7. Despite its low contribution to **GHG emissions, Benin has established strong commitments.** The NDC sets a target of reducing GHG emissions by 20 percent by 2030 compared to business as usual. To achieve this, it includes several mitigation measures for the agriculture, energy, land use, land-use change and forestry (LULUCF) and waste sectors. The investment needed to achieve these objectives (including adaptation) was estimated at about US$8.6 billion, with a contribution of US$5.1 billion from the government and the private sector, and the remaining US$3.5 billion expected to be mobilized from the international community.[8]

8. The energy transition is an opportunity to embrace a less carbon-intensive development path. Most emerging and developing economies need to find the right balance between development needs and a lower carbon path. With more than half the population lacking access to electricity, achieving universal access to electricity by 2030 is Benin's main priority. The Benin Least-cost Electrification Master Plan (2021) expects that by 2030, 76 percent of the population will be connected to the electricity grid. To achieve this, the government plans to progressively increase the share of renewable energy (RE) in the energy mix as it expands production. The target is to reach between 20-30 percent RE penetration in the energy mix by

[7] Government of Benin 2021. Nationally Determined Contribution. Benin's Updated Contribution to the Paris Agreement

[8] Government of Benin 2021. Nationally Determined Contribution. Benin's Updated Contribution to the Paris Agreement.

2035 and to 33 percent by 2045. Overall, production expansion plans for 2045 will require financing of around US$2.6 billion (or 15 percent of 2022 GDP). Co-benefits from the use of renewable energy could be sizeable, especially in telecoms, agriculture and water management, and transport. A greener energy grid can reduce the emissions from ICT expansion. Benin is performing well at a regional level but there is still room for improvement as 20 to 40 percent of mobile sites do not have access to a reliable grid. Digital technologies could in turn support climate change mitigation in the energy sector by facilitating the transition to RE, enhancing energy efficiency, and enabling demand-side flexibility. Co-benefits could also exist from decarbonizing the transport sector to reduce negative externalities. Road transport's GHG emissions multiplied by six between 2000 and 2021. Even though in comparison with regional peers the current level of per capita transport emissions remains extremely low they are increasing and will continue to rise as urbanization progresses.

9. Mitigation can also bring about new opportunities for forests and land use. To reduce carbon emissions from land use, deforestation rates will need to slow in the short-term and stop altogether in the long-term, with continued investment in sustainable forest management. Developing carbon financing opportunities for forest production and conservation offers a high-value opportunity for increasing and conserving carbon stocks, and reverse deforestation. To support this, in the context of Article 6 of the Paris Agreement, Benin adopted two decrees in December 2022 to enable projects to access to carbon credits managed under the Ministry of Environment and Transport in charge of Sustainable Development (MCVT) and Ministry of Environment and Forests (MoEF). To help meet energy demands, the government aims to improve fuelwood production, while expanding the use of clean fuels and efficient technologies. Much of the forested area is used for fuelwood and charcoal production, which supports 46 percent of the national energy consumption.

D. Financial Challenges

10. Mobilizing financing for climate investments will be very challenging. The CCDR calculates that Benin's additional financing needs amount to an annual investment of 0.1 percent of GDP to 2030, rising to 0.3 percent of GDP to 2040 and 0.8 percent in 2050. That is an annual average of 0.3 percent over 2022-2050. However, these are on top of the already very large investment needs incorporated into the baseline macroeconomic framework that include climate-informed actions to adapt to changing conditions. Benin's own national development plans expect significant costs. The Nationally Determined Contribution estimates adaptation and mitigation investment needs at about US$8.6 billion (with a contribution of US$5.1 billion from the government and the private sector and US$3.5 billion from the international community), while the National Adaptation Plan estimates adaptation needs alone at about US$4.2 billion over a 10-year horizon. Regardless of variations in the calculations, the investment required in the short term is significant compared with the country's economy and fiscal capacities. A significant jump in private sector investment will also be needed for the economy to continue its structural transformation while adapting to climate change and avoiding carbon lock-ins. There are thus at least three potential avenues for financing climate action: (1) Increase revenue (such as through a carbon tax) and make public spending more efficient to create fiscal space for adaptation; (2) tap into concessional and blended finance and disaster risk financing; (3) leverage corporate investment. Benin has played a pioneer role in raising sustainable financing from the sovereign standpoint thanks to the issuance of the Sustainable Development Goals (SDG) bonds and can capitalize on that experience.

11. This investment effort could be shouldered by the private sector if key reforms are implemented. There is room to increase the participation of the private sector in various sectors (agriculture, water, electricity, transport), through well-designed PPPs. Encouraging private sector participation in adaptation and mitigation will require sound regulatory frameworks. Greening the financial sector will be instrumental to channel resources toward climate-friendly activities. Actions from both the government and the *Caisse des dépôts et consignations du Benin* offer promising avenues.

E. World Bank Engagement in Climate Change

12. In line with the International Development Association's priority of addressing climate change and development together, climate action is a cross-cutting dimension of the World Bank's operations, technical assistance and knowledge generation for Benin. The World Bank has a strong country engagement on climate change with a large portfolio of financing and technical assistance that is helping Benin implement its climate commitments and to strengthen its climate resilience. The CCDR (expected publication by December 2023) will also inform the next Country Partnership Framework for Benin. Recent activities include:

- **Active operations that have high climate co-benefits include:** the Benin Rural Water Supply Universal Access Program (US$220 million, P164186) that aims at increasing access to water supply service and to strengthen service delivery arrangements in selected rural areas; the Benin - Stormwater Management and Urban Resilience Project (US$100 million, P167359) that addresses flood risks in selected areas of Cotonou and strengthen urban resilience management and capacity at the city level; the Building Resilient and Inclusive Cities Program (US$200 million, P176653) specifically focused on improving access to climate resilient urban services and urban service delivery arrangement in selected municipalities; the Gazetted Forests Management Project (US$75 million, P167678) that improves the integrated management of targeted Gazetted Forests, to increase access of the main consumption cities to fuelwood produced sustainably, and to strengthen selected non-timber forest product value chains for forest-dependent communities; the Agricultural Competitiveness and Export Diversification Project (US$160 million, P168132) looking to increase productivity and market access for selected agri-food value chains; the Benin Electricity Access Scale-up (BEAS) Project (US$ 200 million, P173749) that aims at supporting the increase access to electricity services for households, enterprises, and public facilities, including through more resilient network; and the Grand Nokoué Sustainable Urban Mobility Project (P180579) in preparation that will expand urban mobility and contribute to decarbonizing the urban transport sector. See below on the DPF series.

- **Operations under preparation are strongly aligned with the CCDR priority areas aiming to strengthen climate resilience across key economic sectors, human capital development and infrastructure.** An example of support to human development is the Benin Social Safety Nets Program - (US$100 million, P176680) that supports the development of an adaptative Social Registry (RSU) for social assistance, including in cases of climatic shocks.

- **Analysis and technical assistance.** The CCDR provides a strong knowledge base to support the country engagement on climate change across all sectors. The Bank also provides technical assistance, through TA components of projects and TA financed by the Climate Support Facility trust fund, to support the implementation of the NDCs, including the development of the MRV system, the strengthening of the DRM framework, and the operationalization of the CCDR findings.

13. The World Bank Benin Boosting Inclusive Growth and Resilience Development Policy Financing (DPF) series with Cat Draw Down Option (DDO) support policy and institutional reforms that strengthen climate resilience and adaptation and advance a low-carbon development pathway**.** The DPF series is strongly aligned with the policy recommendations of the CCDR. It aims at strengthening social and climate resilience. The operation also provides a critical line of contingent financing (Cat DDO) and supports the government in being better financially prepared to respond to the immediate needs of a natural catastrophes. It directly supports reforms to strengthen the sustainability and adaptability of the social protection system, and strengthen the regulatory framework on urban planning and the protection of the coastline.

14. The proposed RSF for Benin contributes to the operationalization of the CCDR recommendations, along with other WB engagement. The reform measures envisaged under the RSF program have been identified in close coordination with WB staff. They have been identified in the CCDR as critical reforms to pursue a resilient development. They build on and complement the extensive WB engagement as described above

Statement by Mr. Sylla, Executive Director for Benin,
Mr. N'Sonde, Alternate Executive Director,
and Mrs. Boukpessi, Advisor to the Executive Director
December 14, 2023

Introduction

1. On behalf of the Beninese authorities, we thank Management and Staff for the continued engagement with Benin. Our authorities appreciate the productive policy dialogue held in the context of the Third Reviews Under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), along with discussions for an Arrangement under the Resilience and Sustainability Facility (RSF). They view the reports as a fair account of the significant strides that have been made in the recent period, the immediate priorities, as well as the macroeconomic policies and structural reforms required to tackle the challenges facing the economy. These include enhancing resilience to shocks, advancing structural transformation, and supporting progress towards the Sustainable Development Goals (SDGs).

2. The Beninese economy is showing resilience amid adverse regional developments, notably the closure of borders with Niger following the coup last July in that country and subsequent regional sanctions, and the impact of the phase-out of fuel subsidies in Nigeria, Benin's main trade partner. Nonetheless, climate-related vulnerabilities--stemming from floods, extreme heat, and droughts–and the challenging security situation in the Sahel pose significant threats to the economy. The government intends to continue safeguarding the hard-won macroeconomic gains of recent years and pursue its reform agenda embodied under the national development program—*Plan National de Développement (PND 2018-25)*—which is implemented through the Government Action Program II (GAP II, 2021-2026).

3. Against this backdrop, the government is requesting access to the RSF for SDR 148.56 million, equivalent to 120 percent of Benin's quota. Our authorities are confident that the RSF will aptly complement the blended EFF/ECF programs to help them enhance the country's resilience to climate change.

Recent Economic Developments and Outlook

4. Regional developments are having an impact on Benin's economy. The country experienced growth of 6.3 percent in the first half of 2023 on the back of increased trade, industrial production, transport activities, and agroindustry. However, since July 2023, the closure of the Niger border is expected to have caused a 0.4 percentage points slowdown in the second half of the year. Nevertheless, real GDP remains strong at 5.6 percent. Inflation levels averaged 3.8 percent by end September 2023 (y/y), reflecting a sharp decline in food prices. This has somewhat offset the impact of the approximately

17 percent surge in transport costs between June and September 2023 and the 60 percent increase in the price of smuggled gasoline—*kpayo*—following the rise in pump prices in Nigeria. The current account deficit is estimated to improve to 5.8 percent of GDP in 2023 (from 6.2 percent of GDP in 2022), owing to the slowdown in imports and higher international cotton prices that have compensated for the low cotton harvest in 2022/23 because of weather-related shocks. In the financial system, credit to the private sector grew strongly by 38 percent (y/y) at end-September 2023, driven by buoyant construction, trade, and transport activities, while non-performing loans have continued to decline.

5. On the fiscal front, tax revenue continues to exceed expectations thanks to solid collection of corporate and individual income taxes, as well as taxes on goods and services. New tax measures have been introduced in the 2023 budget, including taxing foreign service providers. Public expenditure has increased significantly following the revision of the public expenditure framework, which has made it more efficient. In particular, social spending has been scaled up to mitigate the security threats in the northern part of the country through the "civilian approach." Although public debt has increased, Benin remains at moderate risk of external and overall debt distress due to sustained revenue mobilization efforts and the authorities' prudent and active debt management strategy.

6. The outlook for medium-term growth is favorable with the ongoing expansion of the Port of Cotonou, increased industrial activity, positive spillover effects of the major socio-economic infrastructure projects under the GAP II, and enhanced business environment. In this context, economic growth is expected to stabilize at its potential rate of 6 percent. Nonetheless, the authorities agree that there are still significant downside risks to consider, including a prolonged closure of border with Niger, which negatively impacts transit activities, and social discontent. Regional security threats in the Sahel and the country's vulnerability to climate-related shocks, notably recurrent floods, and droughts, add to risks. Should the risks materialize, the government remains committed to taking proactive measures to mitigate potential adverse effects on the economy and formulating appropriate policy responses, building on its track record of policy implementation. In this regard, the authorities have discussed contingency plans with Staff.

Implementation of the EFF- and ECF-supported Programs

7. Similar to the previous reviews, program performance remained robust during the period under the third reviews. All Quantitative Performance Criteria (QPCs) and indicative targets (ITs) for the end-March and June 2023 were met, some with comfortable margins, including the basic primary balance and net domestic financing. The ITs saw an overperformance in tax revenues by about 7 percent, and the priority social spending also exceeded the targets. Even with a €350 million in SDG financing—partially backed by the African Development Bank (AfDB)—external borrowing remained below the ceiling set as present value limit. As for the structural benchmarks (SBs), the three measures set for the review were implemented, including the Medium-

Term Revenue Strategy (MTRS), the quantitative fiscal risk analysis t annexed to the 2024 budget law, and the operationalization of the commercial court of appeal.

Macroeconomic Policies and Reforms Going Forward

Pursuing Fiscal Consolidation and Preserving Debt Sustainability

8. Fiscal consolidation is being pursued with the view to gradually converging to the Western African Economic and Monetary Union (WAEMU)'s fiscal deficit target of 3 percent of GDP by 2025, consistent with the WAEMU stance. This is warranted to preserve debt sustainability and maintain Benin's risk of debt distress as moderate. In 2023, considering some flexibility in the design of the EFF/ECF arrangements, with an adjustor on budget support, the fiscal deficit is expected to reach 4.5 percent of GDP from a projected 4.3 percent. With the resumption of concessional budget support and higher disbursements compared to previous years, it could go up to 4.7 percent of GDP. This larger deficit would provide additional space for targeted social spending increases.

9. For 2024, the draft budget law submitted to the Parliament forecasts a deficit of 3.7 percent of GDP. The authorities' consolidation efforts will continue to rely on increasing domestic revenue mobilization. To this vein, a combination of tax policy and administrative measures have been introduced. Over the medium-term, a 2024-2028 Medium-Term Revenue Strategy (MTRS) was developed with the support of IMF technical assistance. The MTRS will guide the country's revenue mobilization efforts over the medium-term, aiming to reach its tax potential and meet its significant development needs.

10. Regarding expenditure, the authorities are mindful of the need to prioritize and improve the efficiency of public spending. In this endeavor, public investments and social safety spending will be prioritized while crisis-related spending will be gradually withdrawn. Moreover, the Beninese authorities plan to build on the upcoming January 2024 IMF technical assistance to inform the modalities for gradually eliminating energy subsidies and improving the fuel pricing system of fossil fuel subsidies. They also continue to emphasize the importance of considering the unique aspects and specificities of Benin's local fuel market, as well as the country's economic and social circumstances.

11. To safeguard the moderate risk of debt distress facing Benin, the authorities will take further steps to manage debt prudently and proactively. This involve prioritizing concessional external financing, extending the maturity of financing raised on the regional market, and diversifying financing sources through innovative funding options that focus on environmental, social, and governance (ESG) criteria.

Strengthening Social Protection

12. Enhancing social safety nets is critical in addressing poverty and inequality in the country. Reinforcing social protection mechanisms remains a top priority for the authorities to achieve this goal, as outlined in their recently published Poverty Reduction

and Growth Strategy (PRGS). In this vein, the government will continue to take advantage of the completed social registry, *Régistre Social Unique (RSU)* to execute the upcoming rollout of cash transfers and income-generating activities, known as *Gbessoke*. Expanding the coverage of the National Integrated School Feeding Program (PNASI), which is managed with the support of the World Food Program, while ensuring its sustainability, is an essential part of the country's efforts to tackle the impact of food insecurity in Benin.

13. The authorities take good note of Staff's analysis on the Implications for Benin of the Phase out of Fuel Subsidy in Nigeria, as outlined in Box 3 of the report, and welcome its main findings and recommendations. The remain committed to managing this transition carefully, particularly with regard to transport costs, balance of payments, and potential income loss for some vulnerable populations.

Further Improving Governance, the Rule of Law and the AML/CFT Framework

14. In 2022, Benin was one of the member countries that underwent an IMF diagnostic to identify vulnerabilities in governance. The diagnostic highlighted positive developments in areas like fiscal issues, AML/CFT, and the rule of law. The authorities developed an action plan to address the findings and implement the recommendations, with the view to further promote good governance, enhance transparency, and tackle corruption. Moreover, reforms to further increase the AML/CFT effectiveness include, among others, the establishment of a legal framework for collecting, verifying, and publishing beneficial ownership information of landholders during land transfers. The Fund-supported program conditionality is being strengthened with three new SBs in these areas.

Safeguarding Financial Stability and Improving the Business Environment

15. In the context of a regional monetary union, both national and regional authorities attach high value to safeguarding financial stability. In this regard, they have resolved the issues of the two troubled banks in Benin and plan to pursue efforts to deepen financial markets and promote financial inclusion. To this end, they have transposed the WAEMU regional financial inclusion strategy and adopted a 2023-2027 financial inclusion strategy for the country. The implementation of this strategy will start with the setting up of a permanent secretariat that will develop tools for a proper monitoring of financial inclusion actions and indicators.

16. The government continue to implement bold reforms to improve the business environment and encourage private-sector investment and growth. They have established a one-stop shop for investors to simplify the licensing process through digitalization. Furthermore, following the revision of the legal and regulatory frameworks for promoting special economic zones, the licensing process will also be simplified through the one-stop shop for investors.

Reforms under the Resilience and Sustainability Facility

17. Benin's exposure to climate-related challenges could affect the steady progress the authorities are making towards achieving the SDGs. The country is one of the most vulnerable to climate shocks, and its most important economic sectors--including the main one, the agriculture sector--are exposed to climate hazards that pose a significant risk to its balance of payments stability. Against this background, the authorities are cognizant of the urgent need to take swift action and prevent severe consequences.

18. The authorities aim to address climate risks and reduce vulnerabilities through an ambitious reform agenda comprising both mitigation and adaptation measures. Their agenda aligns with the country's recent Nationally Determined Contribution (NDC) and National Adaptation Plan (NAP). To sustain their efforts, they are leaning on the existing legislative and regulatory frameworks, together with the recommendations of the IMF's Climate Public Investment Management Assessment (C-PIMA) and the World Bank's Climate Change and Development Report (CCDR). As part of this approach, fifteen (15) reform measures (RMs) have been identified and articulated around four (4) pillars, namely (i) mainstreaming the climate agenda in policymaking and PFM/PIM processes, (ii) enhancing adaptation to climate change, including transitioning away from fossil fuels, and strengthening populations' resilience, (iii) supporting mitigation efforts through a comprehensive fuel subsidy reform, and (iv) mobilizing climate finance from the private sector, including through a climate financial information architecture, building on the recent SDG bond framework.

Conclusion

19. Despite the challenges posed by recent regional developments, Benin's economy has proven to be resilient. The authorities have made commendable progress in implementing their economic and financial reform program supported by the Fund's EFF/ECF program. Looking ahead, the government is determined to stay the course and reiterate its commitment to the program's objectives. Given the authorities' strong track record in policy and reform implementation, we would appreciate the Executive Board's support for the completion of the third reviews under the EFF and ECF arrangements, as well as the Beninese authorities' request for an arrangement under the RSF. They look forward to continuing close engagement with IMF and other partners as they pursue the country's economic and social development and climate goals.