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September 7, 2011

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Benin: Letter of Intent, and Technical Memorandum of Understanding

August 16, 2011

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LETTER OF INTENT

August 16, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Ms. Lagarde:

1. The government of Benin continues to implement its economic and financial program under the Enhanced Credit Facility (ECF) to achieve its growth and poverty reduction objectives. We take the opportunity of the second review to take stock of program implementation at end-March 2011, and to define the policies and reforms we intend to implement in 2011-12.

2. All quantitative performance criteria for end-March 2011 were met, despite the extraordinary floods in 2010. However, since then, the continuous criterion on the concessionality of external debt was not observed because of two slightly nonconcessional loans. The macroeconomic framework remains broadly unchanged and the government is committed to implementing the supporting policies and reforms, as described in this letter. In that context, we request a waiver for the nonobservances of the performance criterion on the concessionality of external debt, the conclusion of the second review under the ECF, and the disbursement of the third tranche of the ECF in the amount of SDR 10.61 million.

I. Economic Developments and Program Implementation in 2010 and in the First Quarter of 2011

A. Recent economic developments and outlook

3. Real GDP grew at 2.6 percent in 2010, falling short of the 3.2 percent target, and slightly down from the previous year (2.7 percent). This lower-than-expected level of economic activity was mainly due to a slowdown in domestic demand, driven by a decline in public investment. Economic activity is projected to recover in 2011, with a projected real growth rate of 3.8 percent, thanks to the expected recovery in agriculture following the 2010 floods, increased volume of public works, and a strong performance in trade and transport.

4. The 2010 floods damaged infrastructures, destroyed cash and food crops, and adversely affected agriculture, trade, and the informal sector. Infrastructure rehabilitation and medium-term flood-prevention measures should revive the significant contribution of these sectors to growth. The government obtained a US$50 million loan (approximately 0.6 percent of GDP) from the World Bank to support the implementation of the Emergency

Urban Environment Management Project (EUEMP). This project aims at upgrading infrastructure, mitigating the environmental damage caused by the floods in Cotonou, and helping Benin to deal more effectively with floods in the future. Supplemental financing from the World Bank's Poverty Reduction Support Credit (PRSC 6) should also help cover the increased expenditure requirements caused by the floods.

5. Inflation was kept under control in 2010, at 2.1 percent on average, well below the 3 percent convergence criterion of the West African Economic and Monetary Union (WAEMU). Although inflation is projected to pick up somewhat in 2011, it would remain below the WAEMU criterion.

6. The external current account deficit, excluding grants, narrowed in 2010 by about 3.4 percentage points of GDP compared to 2009, because of the growth of nontraditional exports and a rebound in transfers from migrants, and because the increase in the cost of imported petroleum products was more than offset by a decline in imports of intermediary products. The financial and capital account balance also improved in 2010. However, the current account deficit is projected to widen by 1.1 percentage point of GDP in 2011, as investment recovers.

7. Money supply grew by 11.7 percent in 2010, driven by the increase in foreign assets of banks and loans to the private sector. It expanded by 3.7 percent in the first quarter of 2011, as increased lending to the government more than offset a decline in credit to the private sector resulting from the slowdown in economic activity during the pre-election period. Money supply is expected to continue to expand throughout the year, driven by the expansion of credit to the private sector, as the economy recovers.

8. Ten out of 13 banks complied with the decision of the WAEMU Council of Ministers to raise capital requirements. Necessary steps will be taken to bring the capital of all banks in line with the regulation. One of the three banks that do not comply yet with the requirement is under temporary administration and the authorities are exploring options concerning its future. A draft law was submitted to the National Assembly to grant to the Central Bank of West African States (BCEAO) the right to supervise and intervene in decentralized financial structures with deposits or credits larger than CFAF 2 billion (about US$4 million).

B. Budget execution

9. Despite weak economic activity, measures were implemented in the second half of 2010 to improve fiscal performance. Revenue collection, however, fell short of the end-year target. To preserve fiscal balance, the government kept expenditure below program projections. The basic primary balance target was therefore largely met. Net domestic financing, however, was slightly above the program target. The overall budget deficit (on a cash basis, excluding grants) improved from 9.3 percent in 2009 to 3.3 percent in 2010 and was financed with external concessional budget support and the issuance of treasury bills.

10. Fiscal consolidation continued in the first quarter of 2011. Revenue and expenditure were broadly in line with the program projections, and the fiscal deficit was further reduced.

Total revenue amounted to CFAF 137.7 billion (4.0 percent of GDP), compared to a target of CFAF 136.6 billion. Expenditure totaled CFAF 163.0 billion (4.7 percent of GDP), well below the program target of CFAF 212.4 billion.

11. Customs revenues amounted to CFAF 63.3 billion (1.8 percent of GDP) at end-March 2011, in line with the program target of CFAF 63.1 billion. The slowdown of imports and activities in the Port of Cotonou, because of elections in Benin, Niger, and Nigeria, and the unchanged customs value of imported petroleum products had a negative impact on customs revenue in the first semester of 2011. However, the end-December 2011 target of CFAF 304.0 billion (8.7 percent of GDP) is still within reach, given the measures we plan to implement (see below).

12. Domestic tax revenue of CFAF 63.6 billion (1.8 percent of GDP) exceeded the program target in the first quarter of 2011. This performance reflected buoyant value-added and property taxes, supported by improvements in tax administration and a tightening of controls. The strengthening of inspections and the extension of the single tax identification number (TIN) to large economic operators will continue to support the growth of domestic tax revenue in 2011 to meet the end-year target of CFAF 274.0 billion (7.9 percent of GDP).

13. Nontax revenue fell short of the end-March target, reaching CFAF 10.8 billion (0.3 percent of GDP) instead of the budgeted CFAF 13.4 billion. This shortfall was due to the delay in the collection of mobile phone license fees, but is unlikely to undermine the achievement of the CFAF 72.0 billion (2.1 percent of GDP) end-year target.

14. The slowdown in spending during the pre-election period enabled us to keep expenditure well below the program target in the first quarter of 2011. Total expenditure and net lending thus amounted to CFAF 166.2 billion (4.8 percent of GDP), compared to a target of CFAF 212.4 billion. All primary expenditure categories remained below the program objectives, except for transfers, which slightly exceeded their target.

15. The indicative benchmark on priority social expenditure at end-March could not be met. Commitments of social spending amounted to CFAF 36.2 billion, about 80 percent of the targeted amount, reflecting the slowdown in public activity during the pre-election period. The government is committed to making these expenditures a priority to meet the end-year target of CFAF 132.6 billion.

16. All quantitative performance criteria were met at end-March 2011. The basic primary deficit criterion was met with a wide margin (CFAF 15.1 billion compared to the CFAF 46.4 billion target), as was the criterion on net domestic financing, despite the postponement of World Bank assistance of CFAF 11 billion to the second semester. The overall budget deficit (cash basis, excluding grants) amounted to CFAF 43.2 billion in the first quarter of 2011, equivalent to 1.2 percent of GDP, well below the CFAF 99.2 billion projection. This performance reflects the government's cautious budget execution in the pre-election period. The overall deficit was financed by the disbursement of the second tranche under the ECF and the drawdown of government deposits in the banking system.

17. Since end-March 2011, we contracted two slightly non-concessional external loans (totaling about 0.6 percent of GDP) with a maturity over one year for infrastructure development, that were deemed to provide a positive economic rate of return. We mistakenly thought that these loans, incorporated in financing packages, could be considered as concessional. Measures have been taken to consult with Fund staff early in the negotiation process to avoid such mistakes from happening again. We request that the zero ceiling on nonconcessional loans with maturity over one year and a grant element of at least 20 percent be raised as specified in the Technical Memorandum of Understanding (TMU). We are in the process of negotiating a relatively small and slightly nonconcessional loan for road construction, a project in line with our infrastructure development priority set out in our growth strategy for poverty reduction, with international development funds. Going forward, if the new ceiling on nonconcessional debt were to be reached, we would discuss this issue in future reviews.

C. Implementation of structural reforms

18. The implementation of structural reforms in 2010-11 encountered some small delays, but mostly should be remedied in the next few months:

- audit of the General Directorate of Taxes' (DGID) computerized system and adoption of an information technology master plan were completed as scheduled (benchmark for end-June 2011);

- integration of all customs and Port of Cotonou agents in a one-stop window was achieved at end-June 2011, as scheduled; tests for the import component are underway and the export component is being finalized;

- extension of ASYCUDA++ to 12 customs units is underway for the remaining 10 units; because some supplies were blocked in Côte d'Ivoire, the project should be completed with a slight delay (end-August instead of the end-June 2011 benchmark);

- development of a complete and integrated information system at the DGID is in progress with the assistance of the Canadian Aid Agency (CIDA) and is scheduled to start in October 2011 (benchmark for end-June 2011) but its completion may take up to three years;

- modernization of the Customs Directorate's computerized system, already operational for six main units, is under way for the other units, and will be completed by end-August 2011, with a small delay compared to the end-June 2011 benchmark, because of the holding up of supplies in Côte d'Ivoire;

- extension of the TIN to large operators is operational and it is currently being extended to small operators; the extension is supported by the African Development Bank (AfDB) and will be completed by end-December 2011, as planned;

- civil service reform strategy had to be postponed (end-June 2011 benchmark) because preparatory work needs to be completed first (see paragraph 27);

- adoption by the Council of Ministers of a regulatory framework for the energy sector and the establishment of a regulatory authority and a price-setting mechanism are proceeding with support from the French Development Agency (AFD); this measure is, however, subject to a small delay and will be completed by end-August 2011(benchmark for end-June);

- the draft law governing pensions, based on the final actuarial audit of the Benin National Retirement Fund (FNRB), is being finalized and will be submitted to the National Assembly by December 2011, as planned;

- opening to the private sector capital of *Bénin Télécoms* was not achieved because the financial offer received from the initial bidder was too low; a new sectoral strategy is being prepared with support of the World Bank; and

- outsourcing the management concession of the Benin-Niger railroad network has been lagging because of elections in Niger.

II. Economic and Financial Policies and Structural Reforms for the Remainder of 2011 and for 2012

19. The government will continue to implement its economic and financial program to achieve its macroeconomic stability and sustainable development objectives.

A. Macroeconomic framework

20. The government's economic policies aim at supporting the return to strong and sustained private-sector-led growth. Key elements are the consolidation of the macroeconomic framework and the implementation of structural measures. Accordingly, growth is expected to increase to 4.3 percent in 2012. This rebound in economic activity would be driven, among other things, by the development of agriculture, increased capacity at the Port of Cotonou, and associated competitiveness gains.

21. We will continue to pursue prudent fiscal and monetary policies to keep average inflation in 2012 below the WAEMU convergence criterion of 3 percent. Credit to the private sector will increase in view of the reduction of bank financing of the government. The external current account deficit in 2012, excluding grants, is expected to remain practically at the same level as in 2011.

B. Fiscal policy

22. For the remainder of 2011, the government is committed to containing the basic primary deficit for the year as whole below the program limit (CFAF 17.6 billion, 0.5 percent of GDP). This will be achieved by catching up on the shortfall in customs revenue at end-May 2011, mainly through (i) recovery of imports following a sluggish election period; (ii) establishment of the one-stop window at the Port of Cotonou; and (iii) a new import verification program.

23. As part of its collective bargaining policy, the government is discussing salary increases with the labor unions in the civil service, but is committed to keeping the 2011 wage bill within the budgeted CFAF 270 billion envelop.

24. For 2012, the government will prepare a budget which continues to ensure fiscal sustainability. Total revenue is expected to reach 19.1 percent of GDP, while total expenditure would amount to 22.7 percent of GDP. The basic primary balance is targeted to record a small surplus at 0.2 percent of GDP.

25. Customs revenue should increase by 10 percent to CFAF 334.5 billion in 2012, inter alia because of the (i) entry into service of the one-stop window at the Port of Cotonou and the Port's increased capacity; (ii) implementation of a new-generation import verification program, which monitors transit trade and fights fraud through electronic monitoring of transit; (iii) purchase of scanners at the Port; (iv) benefit from extending ASYCUDA++ to all customs units and their inter-connection with Tax Directorate (DGDDI); and (v) strengthening of anti-fraud measures. Tax revenue should also grow by 8.7 percent to CFAF 297.7 billion, supported by several measures, including the expansion of the TIN to all taxpayers. Nontax revenues are expected to reach CFAF 77.8 billion, about the same level as the year before.

26. Total expenditure and net lending are projected to amount to CFAF 843.9 billion (22.7 percent of GDP) in 2012, an increase of 5.8 percent compared with 2011. The breakdown of expenditure should remain broadly unchanged from 2011. We plan to keep the wage bill within the program envelop of CFAF 279 billion in 2012.

C. Structural reforms

27. Our financial and economic program will be underpinned by additional structural measures during 2011-12. These include:

- submission to the Supreme Court of the draft Organic Budget Law (*Loi Organique relative aux Lois de Finances*) by December 31, 2011;

- finalization of two studies (related to the remuneration system in the civil service and the reform of the civil service) and preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH) by December 31, 2011; the organizational and institutional audit of the Ministry in charge of the Civil Service is under way; these outputs will provide important inputs for the formulation of a civil service reform strategy;

- submission to the budget audit office (*Chambre des Comptes*) of the 2010 budget execution accounts by December 31, 2011;
- establishment of a joint Customs-Tax control unit by December 31 2011;
- operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts by March 31, 2012;
- completion of a detailed review of all existing tax and customs exemptions with a view to rationalizing them; the results of this review will be presented to the Council of Ministers by June 30, 2012; and
- establishment of the Integrated Human Resources Management System (SIGRH) by December 31, 2012.[1]

III. Growth and Poverty Reduction Strategy

28. As part of its continued efforts to reduce poverty, the government prepared a third Growth and Poverty Reduction Strategy (GPRS III) for 2011-15. The strategy is the outcome of a broad participatory process that included representatives of public administration, the private sector, and civil society, from preparation to final validation. Its implementation is based on the Priority Action Program (PAP). The strategy aims at improving the population's living standards and achieving the Millennium Development Goals (MDGs), particularly in the areas of health, primary education, water, and sanitation. The macroeconomic framework of the GPRS III was based on two scenarios: a scenario consistent with the macroeconomic framework supported by the ECF, and a second scenario implemented if additional resources became available. The latter scenario foresees an acceleration in real growth to 7.5 percent over the medium term and significant progress toward reaching selected MDGs.

IV. Conclusion

29. The government believes the measures and policies described in this letter are appropriate for achieving the program objectives, and reaffirms its commitment to take any required additional measure. The government therefore requests a waiver for the nonobservances of the performance criterion on non-concessional external borrowing, the conclusion of the second ECF review, and the associated disbursement. The fourth review of

[1] The government will seek possible external concessional financing for the implementation of this project.

the program will be completed by end-September 2012, based on the observance of performance criteria on March 31, 2012.

30. Program monitoring will be based on the performance criteria, quantitative targets, and structural benchmarks defined in Tables 1 and 2 attached to this document. To facilitate the monitoring of the program, the government will regularly provide IMF staff with all the information required, as defined in the TMU, or any other additional information that it considers necessary or that the IMF staff requests.

31. The government will consult with the IMF on its own initiative or at the request of the Managing Director before adopting any additional measure or changing any of the measures included in this letter of intent to achieve program objectives. The government authorizes the IMF to publish the staff report on the discussions for the second review of the program, as well as this letter of intent.

Sincerely yours,

/s/

qAdidjatou A. Mathys
Minister of the Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2010–12
(Billions of CFA francs)

	Dec. 31, 2010	March 31, 2011				June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012
	Indicative Targets	Performance Criteria				Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
	Rev. Prel.	Prog.	Adj. Prog.[1]	Prel. Est.		Proj.	Prog.	Proj.	Prog.
A. Quantitative performance criteria[2]									
Net domestic financing of the government (ceiling) [3 4]	0.2	69.9	74.9	32.3	Met	72.1	79.7	57.3	48.7
Basic primary balance (excuding grants) (floor)	15.1	-46.4	-46.4	-15.1	Met	-36.5	-48.5	-17.6	-20.5
Memorandum item : Budgetary assistance [5]	52.2	11.0	11.0	0.0		11.0	23.0	33.8	0.0
B. Continuous quantitative performance criteria (ceilings)									
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year [6]	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year [6]	0.0	0.0	0.0	0.0	Met	0.0	25.0	25.0	25.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
C. Indicative Targets [2]									
Total revenue (floor)	603.0	136.6	136.6	137.7	Met	295.0	464.2	650.1	148.3
Payment orders issued outside the expenditure chain (ceiling) [7]	8.6	2.5	2.5	1.3	Met	4.6	7.5	10.6	2.5
Priority social expenditure (floor)	…	45.3	45.3	36.2	Not met	77.6	117.3	132.6	46.0

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

[1] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnote 3 (per Paragraph 8 of the Technical Memorandum of Understanding).

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

[3] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro tanto, subject to limits specified in the Technical Memorandum of Understanding (Paragraph 8).

[4] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast by more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.

[5] Gross disbursements, not adjusted for debt service obligations.

[6] Debt is considered nonconcessional if the difference between the present value (PV) of the debt and its nominal value, as a percentage of the nominal value of the debt, is lower than 35 percent. The ceiling for this continuous performance criterion will be raised with effect from the second program review.

[7] Exceptional payment procedures: stock of payment orders issued since the beginning of the calendar year and not yet regularized at each test date.

Table 2 Benin: Structural Benchmarks for 2010–12

Measures implemented	Initial Date/Revised Date	Rationale	State of Execution
Measures implemented			
(i) Adoption of an information technology (IT) master plan for the tax department (DGID) (after its audit to generalize the Tax Identification Number, TIN); (ii) the modernization of the information system of the customs department (DGDDI).	June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Implemented.
Implementation of the integration and federation of all the customs and Port of Cotonou agents in a one-stop window.	June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs	Implemented.
Measures to be implemented			
Extension of the ASYCUDA++ information system to 12 additional regional customs offices.	December 31, 2010/ August 31, 2011	The authorities aim to improve the collection of customs revenue to expand the fiscal space for infrastructure investment and measures to reduce poverty.	Delayed. The extension to two additional border posts was achieved at end-October 2010. The extension to the remaining offices will be achieved by end-August 2011.
Starting of the development of a complete and integrated information system at the DGID.	December 31, 2010/ December 31, 2013	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. In progress with the assistance of the Canadian Aid Agency (CIDA). Scheduled to start in October 2011, but may take up to three years.
Extension of the information system of the customs department (DGDDI) to all units.	December 31, 2010/ August 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. To be completed by end-August 2011.
Generalization of the TIN to all taxpayers and all the units of the tax and customs administration.	December 31, 2010/ December 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. The generalization is already effective for large taxpayers. The generalization to small operators, with support from the African Development Bank (AfDB), will become effective by December 2011.
Generalization of the systematic use of the TIN by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 2999999999949).	December 31, 2010/ December 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. The use of the identification numbers (0000000000000 and 2999999999949) has already been abolished, but the abolition of all nonspecific numbers within the ASYCUDA++ system will be achieved by December 2011.
Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service.[1]	June 30, 2011/ To be determined	The authorities aim to limit the expansion of the wage bill and to maintain fiscal space for infrastructure investment and measures to reduce poverty.	Delayed. This effort is pursued with the support of technical and financial partners. Two preliminary studies on the remuneration system and civil service reform are underway and will be completed by end-December 2011 (see below).
Adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism.	June 30, 2011/ August 31, 2011	The authorities aim to maintain the financial viability of the electricity company (SBEE).	Delayed. This effort is pursued with support from the French Development Agency (AFD) and will be completed by end-August 2011.
Presentation to the National Assembly of a draft law governing pensions (based on the final report on the actuarial audit of the national pension scheme, FNRB).	December 31, 2011	The authorities aim to contain the impact of FRNB's deficit on public finances by strengthening its financial viability.	In progress.
New measures agreed during the 2nd review			
Submission to the Supreme Court of a draft Organic Budget Law (LOLF).	December 31, 2011	Enhance the management of public finances.	
Finalization of the studies for the preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH).	December 31, 2011	Improve the management of civil servants' compensation.	
Submission to the budget audit office (Chambres des Comptes) of the 2010 budget execution accounts.	December 31, 2011	Increase the transparency of public financial management.	
Establishment of a joint Customs-Tax control unit.	December 31, 2011	Enhance revenue mobilization.	
Operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts.	March 31, 2012	Enhance revenue mobilization.	
Completion of a detailed review of all existing tax and customs exemption regimes, with a view to rationalizing them; the results of this review will be presented to the Council of Ministers.	June 30, 2012	Increase efficiency and transparency of public finances, and broaden the tax base.	
Establishment of the Integrated Human Resources Management System (SIGRH).	December 31, 2012	Improve the management of civil servants' compensation.	

[1] Before adoption of a strategy for civil service reform, two studies and the establishment of the SIGRH need to be completed, therefore the initial structural benchmark had to be postponed.

ATTACHMENT

TECHNICAL MEMORANDUM OF UNDERSTANDING

August 16, 2011

1. This technical memorandum of understanding ("the Memorandum") defines the quantitative performance criteria and benchmarks, and structural benchmarks for the Republic of Benin's program supported by the Extended Credit Facility (ECF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. DEFINITIONS

2. Unless otherwise indicated, "government" is understood to mean the central administration of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government's flow-of-funds table (*Tableau des opérations financières de l'État*, TOFE).

3. The definitions of "debt" and "concessional borrowing" for the purposes of this Memorandum are set out in point 9 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009:

(a) For the purposes of this Memorandum, debt is understood to mean a direct, that is, not contingent, liability, created under a contractual agreement through 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; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, that is, advances of money to the obligor by the lender 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 buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

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

Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are 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) A loan is considered concessional if, on the date on which the contract became effective, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). Specifically, the ten-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years, while the six-month average of CIRRs will be used for loans with shorter maturities. To both the ten-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1.00 percent for repayment periods of 15–19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

(c) "Domestic debt" is defined as debt denominated in CFA francs, while "external debt" is defined as debt denominated in any currency other than the CFA franc.

II. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

Definitions

4. Net domestic financing of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any Central Bank of West African States (*Banque centrale des États de l'Afrique de l'Ouest*, BCEAO) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

5. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and the national commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of government owned entities, with the exception of industrial or commercial public agencies (*établissements publics à caractère industriel et commercial*, EPICs) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including Treasury bills and other securitized debt.

6. The figures deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market calculated by the BCEAO and the figures for nonbank financing calculated by the Treasury of Benin.

7. *Gross* external budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief 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, in turn, 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 payments arrears.

Adjustments

8. The ceiling on net domestic financing (NDF) of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 9:

- 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 over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion. However, if the excess is entirely or partly allocated to the settlement of domestic arrears above and beyond the program objective specified in paragraph 9, the NDF ceiling will be lowered by an amount equal to the excess net external budgetary assistance compared with program targets, minus the sum of (a) CFAF 5 billion and (b) the excess repayment of domestic arrears compared with program targets.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 10 billion at end-June 2011; CFAF 20 billion at end-September 2011; CFAF 35 billion at end-December 2011; and CFAF 5 billion at end-March 2012.

9. For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program:

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are: CFAF 11.0 billion at end-June 2011; CFAF 23.0 billion at end-September 2011; CFAF 33.8 billion at end-December 2011; and CFAF 0.0 billion at end-March 2012.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are: CFAF 16.6 billion at end-June 2011; CFAF 21.7 billion at end-September 2011; CFAF 32.9 billion at end-December 2011; and CFAF 4.2 billion at end-March 2012.

- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 11.4 billion at end-June 2011; CFAF 14.4 billion at end-September 2011; CFAF 17.4 billion at end-December 2011; and CFAF 2.1 billion at end-March 2012.

- The amounts of settlement of external payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 0 billion at end-June 2011; CFAF 0 billion at end-September 2011; CFAF 0 billion at end-December 2011; and CFAF 0 billion at end-March 2012.

Performance criteria and indicative targets

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 72.1 billion at end-June 2011; CFAF 79.7 billion at end-September 2011; CFAF 57.3 billion at end-December 2011; and CFAF 48.7 billion at end-March 2012. The ceiling is a performance criterion for end-September 2011 and end-March 2012, and an indicative target for end-June 2011 and end-December 2011.

B. Floor for Basic Primary Fiscal Balance

Definition

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

Performance criteria and indicative targets

12. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than: CFAF-36.5 billion at end-June 2011; CFAF -48.5 billion at end-September 2011; CFAF -17.6 billion at end-December 2011; and CFAF -20.5 billion at end-March 2012. The floor is a performance criterion for end-September 2011 and end-March 2012, and an indicative target for end-June 2011 and end-December 2011.

C. Nonaccumulation of New Domestic Payments Arrears by the Government

Definition

13. Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (*Caisse Autonome d'Amortissement*, CAA) and the Treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement.

The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears. The nonaccumulation of new domestic payments arrears will be continuously monitored throughout the program.

D. Nonaccumulation of External Public Payments Arrears

Definition

15. External public payments arrears are defined as the sum of payments due, but not paid, by the government at the due date specified in the contract, on external debt of, or guaranteed by, the government. The definitions of debt provided in paragraph 3a, of external debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

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

E. Ceiling on the Contracting or Guaranteeing by the Government of New Nonconcessional External Debt Maturing in a Year or More

Definition

17. This performance criterion applies not only to debt as defined in paragraph 3a, but also to commitments contracted or guaranteed by the government (as defined in paragraph 18) (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 3c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. The definition of nonconcessional debt in paragraph 3b applies here.

18. The concept of "government" used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new short-term external debt, includes the government, as defined in paragraph 2, local governments, and all public enterprises, including administrative public agencies (*établissements publics à caractère administratif*), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Continuous performance criterion

19. No nonconcessional external borrowing, with a grant element of at least 20 percent, will be contracted or guaranteed by the government in excess of the equivalent of CFAF 25 billion for the remainder of the program. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) for specific investment projects whose financial viability and profitability have been evaluated and approved by a recognized institution, and on condition that the loan does not seriously exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

20. The government also undertakes not to contract or guarantee any external debt during the implementation of the program without first having determined its concessionality with IMF staff.

F. Ceiling on the Contracting or Guaranteeing by the Government of New Nonconcessional Short-Term External Debt

Definition

21. The definitions in paragraphs 17 and 18 also apply to this performance criterion.

22. Short-term external debt is debt with a contractual term of less than one year. Import- and export-related loans, Treasury bills issued in CFA francs on the WAEMU regional market, normal short-term supplier credits, and debt relief operations are not covered by this performance criterion.

Performance criterion

23. The government undertakes not to contract or guarantee short-term nonconcessional external debt.

24. The government also undertakes not to contract or guarantee any short-term external debt during the implementation of the program without first having determined its concessionality with IMF staff.

25. On June 30, 2011, Benin had no short-term external debt.

III. Indicative Targets

A. Floor for Government Revenue

Definition

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

Indicative targets

27. The indicative targets for total government revenue (cumulative since January 1 of the same year) are set as follows: CFAF 295.0 billion at end-June 2011; CFAF 464.2 billion at end-September 2011; CFAF 650.1 billion at end-December 2011; and CFAF 148.3 billion at end-March 2012.

B. Ceiling on Exceptional Payment Procedures

Definition

28. Exceptional payment procedures (*ordres de paiement hors de la chaîne de dépenses*) are defined as expenditures of a budgetary nature that are not executed following the stages of expenditure commitment (*engagement*) and validation (*liquidation*) before the payment order (*ordonnancement*) is issued, and that have not been regularized on the test date.

Indicative targets

29. The government undertakes to limit total expenditures (cumulative since January 1 of the same year) effected by exceptional payment procedures to a ceiling of: CFAF 4.6 billion at end-June 2011; CFAF 7.5 billion at end-September 2011; CFAF 10.6 billion at end-December 2011; and CFAF 2.5 billion at end-March 2012.

C. Floor for priority social expenditures

30. Priority social expenditures are determined in line with the priority programs identified in the Growth and Poverty Reduction Strategy for 2011-15 (GPRS III). These expenditures consist of selected (nonwage) expenditures in the following sectors: health; energy and water; agriculture; youth, sports and leisure; family and national solidarity; education, microfinance and employment; and culture, literacy, and the promotion of national languages. Their execution is monitored on a payment-order basis during the program, through the integrated fiscal management system (SIGFiP).

Definition

31. The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1.

Table 1. Priority Social Expenditure Categories

Budget code	Description
36 and 64	Ministry of Health
37	Ministry of Energy and Water
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family and National Solidarity
44	Ministry of Higher Education and Scientific Research
49	Ministry of Microfinance and for the Employment of Youth and Women

62	Ministry of Maternal and Primary Education
63	Ministry of Secondary, Technical, and Professional Education
68	Ministry of Culture, Literacy, and for the Promotion of National Languages

Indicative targets

32. The indicative targets for priority social expenditures (cumulative since January 1 of the same year) are set as follows: CFAF 77.6 billion at end-June 2011; CFAF 117.3 billion at end-September 2011; CFAF 132.6 billion at end-December 2011; and CFAF 46.0 billion at end-March 2012.

IV. Structural Benchmarks

33. The following measures will serve as structural benchmarks under the program:

- extension of the ASYCUDA++ information system to 10 additional regional customs offices by August 31, 2011;

- starting of the development of a complete and integrated information system at the tax department (*Direction Générale des Impôts et des Domaines,* DGID) by October 31, 2011;

- extension of the information system of the customs department (*Direction Générale des Douanes et des Impôts Indirects*, DGDDI) to all units, by August 31, 2011;

- generalization of the TIN to all taxpayers and to all units of the tax and customs administrations, by December 31, 2011;

- generalization of the systematic use of the tax identification number (TIN) by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by December 31, 2011;

- completion of two studies (on the remuneration system in the civil service and civil service reform) by December 31, 2011 to support the adoption by decision of the Council of Ministers of a strategy for the reform of the civil service;

- adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism by August 31, 2011;

- presentation to the National Assembly of a draft law governing pensions (based on the final report on the actuarial audit of the national pension scheme, FNRB) by December 31, 2011;

- submission to the Supreme Court of the draft Organic Budget Law (Loi Organique de la Loi des Finances) by December 31, 2011;

- finalization of the studies for the preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH) by December 31, 2011;

- submission to the budget audit office (*Chambre des Comptes*) of the 2010 budget execution accounts by December 31, 2011;

- establishment of a joint Customs-Tax control unit by December 31, 2011;

- operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts by March 31, 2012;

- completion of a detailed review of all existing tax and customs exemptions with a view to rationalizing them; the results of this review will be presented to the Council of Ministers by June 30, 2012; and

- establishment of the SIGRH by December 31, 2012.

V. Information for Program Monitoring

A. Data on Performance Criteria and Indicative Targets

34. To facilitate effective program monitoring, the government will provide IMF staff with the following data:

Every month:

- copies of the contracts and data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;

- monthly consumer price index, within two weeks of the end of the month;

- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the SIGFiP, within six weeks of the end of the month;

- data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month; and

- the monetary survey, within eight weeks of the end of the month.

Every quarter:

- data pertaining to the amount of exceptional payment procedures or other exceptional measures, within six weeks of the end of the quarter; and

- data pertaining to priority social expenditures, within six weeks of the end of the quarter.

B. Other information

35. The government will provide Fund staff with the following data:

Every month:

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

Every quarter:

- data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and

- data on the stock of external debt, external debt service, the signing of external loans and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

- in the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget execution law; as well as any decree or law pertaining to the budget or implementation of the IMF-supported program.