Benin and the IMF

Press Release:
IMF Executive Board Completes Third Review Under the Extended Credit Facility Arrangement and Approves US$22.0 Million Disbursement for Benin

November 6, 2018

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Benin: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

November 19, 2018

Letter of Intent

THE MINISTER

Cotonou, November 19, 2018

TO

Madame Christine LAGARDE
Managing Director
International Monetary Fund
WASHINGTON, DC 20431, USA

Dear Madame Lagarde:

I am pleased to inform you that Benin has made significant progress owing to the implementation of the Government Action Program (GAP). Implementation of the GAP, along with the introduction of important structural reforms in the context of the economic and financial program (2016-2019) concluded with the International Monetary Fund (IMF), have led to a sustained economic growth in a context of low inflation, control of the budget deficit, and a favorable outlook for the current account balance in the medium term.

The economic recovery that began in 2016 is ongoing. In 2017, it was essentially driven by public investment, cotton production and the exit of the recession in Nigeria. Growth should continue to intensify this year, in part owing to strong activity in the port. Inflation became slightly positive in 2017 (0.1 percent), fueled by the increase in the prices of food products and transport. It continued to rise in the first half of 2018, reaching 0.9 percent in September.

The budget deficit (including grants) was held at 5.9 percent of GDP in 2017, well below the initially programmed level (7.9 percent of GDP), essentially reflecting the mobilization of more resources than initially programmed. The deficit should shrink further in 2018, to 4.7 percent of GDP. For 2019, the budget estimates a deficit under the threshold of 3 percent of GDP, bringing us into compliance with the WAEMU fiscal convergence criterion.

Finally, the current account deficit (including grants) deteriorated in 2017 owing to higher investment-related imports, but it should begin to contract this year as exports increase.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in the implementation of the economic and financial program supported by the Extended Credit Facility (ECF) and presents the additional measures that we will take to shore up our achievement of the main objectives for 2019. In this context, we propose two new structural benchmarks relating to the elimination of selected tax expenditures in the 2019 budget, and an additional audit of the stock of former governments' unpaid services to suppliers.

Overall, the results of the economic and financial program are satisfactory. All of the quantitative performance criteria for end-June 2018 and the continuous performance criteria have been met, with the exception of the criterion on the non-accumulation of domestic payments arrears. A small, temporary, non-cash-flow related accumulation of arrears (0.04 percent of GDP) was observed over March-June 2018 owing to institutional changes on the managerial and technical teams in the public debt agency, the Autonomous Amortization Fund (CAA). Steps were taken promptly by the government to ensure that this did not happen again, particularly by replacing the managerial team, making organizational changes and introducing a systematic monitoring system. We therefore request a waiver for the non-observance of this continuous performance criterion. It should be noted that all of the structural benchmarks were met on time, with the exception of the adoption of a legal and regulatory framework for public investments, which took place in November 2018 rather than in September.

The government is convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of its program. It will take all additional measures that may be necessary to this end and will consult the IMF on the adoption of such measures prior to any revision of the policies outlined in the attached MEFP, in accordance with the Fund's policies concerning such consultations. The government will provide IMF staff with any information that may be needed to monitor implementation of the program and achievement of the program objectives, as set out in the attached Technical Memorandum of Understanding (TMU). The government authorizes the IMF to publish this letter and its attachments on its external website, as well as the IMF staff report, following approval by the IMF Executive Board of the third review under the ECF arrangement.

The government would therefore like to request the completion of the third review under the ECF arrangement, a waiver for the non-observance of the criterion on the non-accumulation of domestic payments arrears, and the disbursement of SDR 15.917 million (around $22.420 million).

Sincerely yours,

/s/

Romuald WADAGNI

Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2018–19

1. This report is an update of the Memorandum of Economic and Financial Policies (MEFP) of June 2018, attached to the staff report for the second review of the ECF-supported program. The document describes recent economic developments and sets out the policies that the government intends to implement in the 2018-19 period. The aim of these policies is to facilitate the continuation of fiscal consolidation and domestic revenue mobilization efforts, as well as strengthen domestic and external economic stability. Implementation of the quantitative performance criteria and structural benchmarks up to end-June 2018 will be assessed in this MEFP, and those for 2019 will be included.

RECENT ECONOMIC DEVELOPMENTS

2. The recovery of economic growth begun in 2016 continues. In 2017, growth was essentially driven by public investment, the record level of cotton production, and the recovery of the Nigerian economy. The secondary sector (construction and public works in particular) and the primary sector (agriculture in particular) were the main contributors to growth in 2017, estimated at 5.8 percent. The initial estimates point to more accelerated growth in 2018, owing to the strong performance of the port sector, particularly the significant increase in transit traffic to other countries that use the Port of Cotonou. Inflation became slightly positive in 2017 (0.1 percent), as a result of rising food and transport prices. Inflation continued to increase in the first six months of 2018, reaching 0.9 percent in September 2018.

3. The current account deficit (including grants) worsened in 2017 as a result of high import volumes related to public investments. Thus, despite a rise in exports linked to strong cotton production outcomes, the deficit is estimated at 9.9 percent of GDP in 2017. It is expected to begin narrowing this year, in response to the increase in exports. Benin’s external position is expected to continue improving in the years ahead, owing to the growth of exports driven by the resurgence of the cotton sector and a decline in imports caused by the slowing of public investment.

4. Fiscal consolidation continues in 2018. The containment of expenditure and the improvement in domestic resource mobilization led to an estimated fiscal deficit (on a commitment basis, grants included) of 4.7 percent of GDP in 2018, compared to 5.9 percent of GDP in 2017. The mobilized revenue at end-September 2018 amounted to CFAF 714.6 billion, compared to an initial program target of CFAF 707.1 billion. This strong revenue performance is explained by the very good performance of nontax revenue (CFAF 148.0 billion, compared to an initial target of CFAF 94.7 billion), which made up for the shortfall in customs revenue (CFAF 31.50 billion) and tax revenue (CFAF 14.3 billion). However, it should be noted that most of the customs and tax shortfall occurred in the first half of 2018. An improvement in revenue performance was observed in the third quarter of 2018.

5. A full debt sustainability analysis (DSA) was carried out for Benin in October 2018, in conjunction with the launch of the new framework for analyzing the debt sustainability of low-income countries. The results of the assessment confirm the moderate risk of debt distress, which has not changed since the conclusion of the December 2017 DSA. However, because of delays in the disbursement of foreign commitments, the government's increased reliance on the regional financial market offering less concessional terms for the financing of public investment projects under the Government Action Program (GAP) increased the present value of the debt, from 42.7 percent in 2016 to 49.3 percent of GDP in 2017 and 48.7 percent of GDP in 2018. Moreover, the ratio of total debt to GDP went from 49.7 percent of GDP in 2016 to 54.4 percent in 2017, owing in particular to the domestic debt burden.

6. In the banking sector, the banking system's capital ratio strengthened, going from 9.5 percent at end-December 2016 to 12.4 percent at end-December 2017, thanks to the ambitious reforms undertaken by the regional central bank (BCEAO) to modernize the financial sector in accordance with the Basel II/III principles. These reforms include a gradual increase in the minimum capital requirement, as well as the entry into force of a new prudential arrangement and a new accounting framework, effective January 1, 2018. The liquidity ratio (total loans/total deposits) stood at 73.4 percent at end-December 2017. The heavy concentration of the bank loan portfolio (loans to the 5 largest borrowers/net worth) remains a source of concern. Moreover, Benin's banking sector now includes a new bank named Sonibank. This brings the total number of banks to 15. Finally, the high level of nonperforming loans persists, although a slight improvement was noted in 2017. The ratio of nonperforming loans to total loans fell from 21.4 percent in 2016 to 19.5 percent in 2017. As in the case of banks, the level of nonperforming loans in the microfinance sector remains high.

IMPLEMENTATION OF THE 2018 PROGRAM

A. Program Performance

7. Program implementation is satisfactory overall. The available data and information show that all the quantitative performance criteria (QPCs) at end-June 2018 were met. In addition, all the continuous performance criteria (CPCs) were met, with the exception of the CPC on the non-accumulation of domestic debt arrears: arrears totaling CFAF 2.3 billion (0.04 percent of GDP) were accumulated in the March-June 2018 period. These arrears, which were not attributable to a cash flow problem, were completely cleared by end-June 2018. Institutional changes in the management and technical teams of the debt management agency (CAA) led to a period of transition in the institution, which prevented strict debt monitoring. Steps were promptly taken by the government to prevent a recurrence of that situation, including organizational changes and the establishment of a systematic monitoring system. The status of the QPCs at end-June 2018 is as follows:

- *Net domestic financing (NDF) of the government),* defined as the sum of net bank credit to the government and net nonbank financing of the government, amounted to CFAF 71.1 billion under an adjusted ceiling of CFAF 205.9 billion.

- *The basic primary fiscal balance,* defined as the difference between total fiscal revenue and basic primary fiscal expenditures, amounted to CFAF 17.7 billon under a ceiling of CFAF 47.5 billion.

- *Total government revenue,* which includes tax and nontax revenue – but excludes foreign grants, the revenue of autonomous entities, and privatization proceeds – amounted to CFAF 475.1 billion, compared to a floor of CFAF 445.5 billion.

8. The strict implementation and monitoring of reforms led to observance of all the structural benchmarks (except one), in accordance with the timetable indicated in the three-year ECF arrangement. These measures pertained to: (i) the effectiveness of the revenue agencies; (ii) improvement of the management of public finances and debt; and (iii) the strengthening of governance and transparency. The prior action regarding the submission of a budget to the Parliamentary Commission that is consistent with the ECF-supported program was also completed. The adoption of a regulatory legal framework for public investment occurred in November 2018 instead of September.

B. Fiscal Management

9. Concerning the revenue agencies, the implementation of reforms aimed at modernizing the tax administration to ensure lasting improvement in revenue collection continues in 2018. In customs, progress was made in effective implementation of the one-stop foreign trade window (*Guichet unique du commerce exterieur*, GUCE), with the objective to minimize the use of paper documents in customs clearance operations. Since the first six months of 2018: (i) the GUCE portal is available; (ii) the interface between the GUCE and the goods tracking system to improve cargo monitoring is operational; and (iii) import intentions are now centralized in the GUCE, which, among other things, will help us improve our customs revenue forecasts. The Directorate General of Taxes (DGI) vigorously pursued the reforms introduced in 2017 within the framework of the tax administration's Strategic Orientation Plan (POSAF). The key reforms include: (i) the continuation of the bancarization of tax payments;[1] (ii) the rollout of the tax management system (SIGTAS) to improve operational transparency and contribute to the reduction of tax fraud; (iii) the launch in March 2018 of electronic procedures to enable the electronic filing and payment of taxes; and, finally, (iv) the launch of electronic billing machines to improve the collection of VAT. We will conduct an initial assessment of the electronic procedures and electronic billing machines by end-2019.

10. We also strengthened cooperation between these two agencies. Several IT developments were launched to facilitate information exchanges between customs and taxes. They include: (i) the

[1] The share of revenue collected through bancarization in the total revenue collected by the DGI went from 17 percent in December 2017 to 36 percent in June 2018.

establishment of a shared platform for tax-customs data exchanges; and (ii) the development of several integrated interfaces in the shared platform. The key capabilities integrated into the platform are: (i) keeping the comprehensive taxpayer directory up to date vis-à-vis the tax administration; (ii) automatic integration of the new Single Taxpayer Identification (*Identifiant fiscal unique*, IFU) numbers generated by SIGTAX; (iii) recognition by ASYCUDA of the activation/deactivation of taxpayers; and (iv) automatic integration of all paid customs declarations in ASYCUDA. However, a recent crosscheck of the two revenue agencies' data showed that some importers are still unknown to DGI staff. This means that cooperation between the two revenue agencies needs to be further strengthened. To begin with, we will ensure that the system of penalties applicable to importers unknown to the tax administration – fine of 10 percent, possibly increased by 3 percent – is assessed.

11. The implementation of reforms undertaken to ensure the rationalization of public expenditure continues in 2018. In terms of managing the wage bill, the reforms mainly concern: (i) census-payment operations focused on active and retired government employees, carried out with the aid of biometrics; (ii) bancarization of student's scholarships; and (iii) systematic bancarization of the periodic benefits of active employees and of pensions of CFAF 50,000 or more, etc. Steps were also taken to improve the effectiveness and transparency of public investments, including: (i) continuing the effort to clean-up the public investment projects (PIP) pipeline; and (ii) creating a "public investment preparation and management fund" to finance investment project feasibility studies.

12. Concerning public debt, the Autonomous Amortization Fund (CAA) has undertaken a number of capacity building activities this year, including the organization of seminars and workshops, in collaboration with the IMF and the World Bank. It also finalized its manual of procedures of and put in place internal and external debt audit mechanisms to determine the frequency and improve the effectiveness of audits. The CAA has also begun establishing various procedures related to the use of the debt database and has reorganized its management team with the appointment of a new Managing Director whose qualifications are more closely aligned with the challenges of debt management. A survey was conducted to get comprehensive data on the debt of public enterprises as well as their contingent liabilities. The resulting figures pertain only to the commercial debt of public enterprises. Moreover, to minimize the fiscal risks associated with public enterprise debt, the CAA is coordinating, in collaboration with the Directorate General of Government Holdings and Privatization (DGPED), a monitoring arrangement that provides for periodic meetings with the said enterprises.

13. Owing to the less concessional terms of financing obtained on the regional financial market and the associated rollover risk of the short-term domestic debt, we initiated a program to optimize the debt portfolio through a reprofiling operation. This arrangement consists of repurchasing certain short-term loans contracted with domestic creditors at high costs with the proceeds of a long-term loan contracted with an international commercial creditor at lower interest rates. The debt reprofiling operation, which was finalized in October, was financed with a guarantee of the World Bank. The guarantee amounts to EUR 154.8 million (equivalent to USD 180 million, corresponding to an IDA allocation of USD 45 million), for a commercial loan to the government denominated in euros in the amount of EUR 387 million (equivalent to USD 450 million). We used two-thirds of the funds to buy back costly domestic debt, including debt owed to a regional development bank. The operation will help reduce the interest costs of public debt and extend its average maturity.

C. Governance Reforms

14. Important steps have been taken in the context of reforming the administrative control bodies. The objective of this reform is to facilitate the creation of a performance culture in the government and step up the fight against impunity by reorganizing the control bodies and implementing measures aimed at their professionalization, by: (i) making the Inspectorate General of Finance (IGF) the central body responsible for operational coordination of the activities of the government's internal audit units and for monitoring the actions taken by the various ministries in response to the main audit recommendations; (ii) putting the sectoral ministries back at the center of the ministries' internal control system; (iii) addressing the shortage of quality human resources within the government's internal audit bodies; (iv) reducing the vulnerability of audit institutions and increasing their contribution to the effectiveness of services; and (v) providing auditors with sufficient resources to perform their assignments. To that end, the government overhauled the regulatory framework with the issuance of three decrees. The new texts formalize a paradigm shift and provide for transitioning from the "inspection-verification" approach to the "internal audit" concept in all its forms. The aim of the new "internal audit" approach is to bring value added to managers, particularly through advisory assistance, with a view to attaining the strategic, operational, and regulatory objectives. The proposed texts will also enable Benin to adopt international standards and overcome the institutional and regulatory obstacles hindering the effectiveness of internal control and audit activities within the government of Benin.

15. In the areas of justice, important reforms have been undertaken this year. Two commercial courts were created and then inaugurated in 2018 following (i) the identification of buildings to house the Commercial Court of Cotonou and the Court of Commercial Appeals of Porto Novo, and (ii) the appointment of professional and consular judges, and the official installation of the courts in those two jurisdictions. In addition, the Court for the Repression of Economic and Terrorism Crimes (CRIET), which was installed in August 2018, is now operational. Its objective is to curb terrorism and economic crimes, as provided for in the criminal legislation in force, as well as suppress drug trafficking and related crimes.

16. Anti-corruption efforts are being strengthened thanks to the initiatives undertaken by the National Anti-Corruption Authority (ANLC) to implement the asset declaration regime laid out in the 2011 Anti-Corruption Law. In particular, the ANLC's measures are intended, among other things, to: (i) ensure that penalties are imposed by responsible Courts if the assets of individuals covered by the Law are not declared; and (ii) allow the online declaration of assets.

17. Finally, with regard to the observance of international governance standards, Benin ratified the United Nations Convention against Corruption in 2005, followed by the African Union Convention Against Corruption and the ECOWAS anti-corruption protocol. The ANLC is also in the process of preparing an action plan for implementing the recommendations made following the assessment of the National Integrity System (SNI) carried out by Transparency International in 2016 with the support of the European Union. In addition, in June 2018 parliament adopted the new law on combating money laundering and the financing of terrorism, which will enable Benin to harmonize and strengthen its national regulations in conformity with the new measures under way in the West African Economic and Monetary Union, in order to fight financial crime.

D. Financial Sector

18. The main components of the Basel II-III capital regulations became effective in January 2018, including the definition of tier 1 capital, tier 2 capital, and the capital conservation buffer. These new prudential rules strengthen the measures increasing the minimum capital requirement, the second phase of which (from CFAF 5 billion to CFAF 10 billion) was completed on June 30, 2017. At end-June 2018, all the banks were compliant with this regulation. These measures are considered essential to safeguarding a sufficient buffer of high-quality capital, as well as strengthening banks' balance sheets. A new chart of accounts for banks and an accounting framework for loan loss provisioning in keeping with IFRS 9 were also introduced in January 2018. The standards on liquidity ratios aligned with the Basel II and III principles are being prepared at the regional level.

19. Together with the BCEAO, the government has a key role to play in ensuring the stability and soundness of the financial system. To that end, we are pursuing a number of structural reforms. The law on Credit Information Bureaus (CIB) was adopted by the National Assembly and promulgated on January 23, 2017 by the President of the Republic. **It will enter into full force no later than end-2018.** The adoption of this law formalizes the establishment by Benin of the necessary legal framework for the launch of CIB activities. In addition, the ministerial decree authorizing the opening of a branch office of "CREDITINFO-VOLO" in Benin was signed on February 1, 2018. Regarding the policy framework for bank resolution, the Annex to the agreement governing the WAEMU Banking Commission (BC) was amended by Decision No. 10 of 29/09/2017/CM/UMOA of the WAEMU Council of Ministers. As a result, the BC is now responsible for the resolution of credit institutions. The general framework for the resolution of institutions has been defined and the BC has a Resolution College. The government's objective going forward is to finalize the establishment of the credit bureau. We are aware that information concerning loans contracted prior to the establishment of the CIB and credit histories dating back more than 3 years are, for the time being, incomplete, due to the fact that banks must request the prior authorization of their customers to report such information to the CIB database. We are therefore looking at various legal options to remove that obstacle.

20. To strengthen the land reform and formalize the collateral used in lending activities, we created the National State Land and Land Tenure Agency (ANDF) in 2016, which, among other things, handles the conversion of occupancy permits into real estate titles. The initiative included in the 2016 Supplementary Budget Law to eliminate recording fees was successful, and the number of real estate titles recorded has grown. We will also work to advance the electronic recording of real estate titles by extending the process to the entire country. In October 2018 we expedited the process by taking steps to make the publication of these titles more inclusive. We also established a Trade and Personal Property Credit Register (RCCM) and are planning to provide electronic access to the register. We will take steps to facilitate the acquisition and use of collateral to obtain bank loans. In addition, the implementation of these measures will enable banks to reduce the level of provisions and ultimately increase their capacity to lend to the private sector.

21. We believe that the microfinance sector is key to promoting small enterprises' access to the financial system. To preserve its viability and credibility, **we will adopt a ministerial decision for microfinance institutions aimed at strengthening their supervision and the granting of licenses.** Progress has been made in closing unauthorized microfinance institutions (MFIs). In addition, the regional financial inclusion strategy is being implemented. Steps have also been taken to rehabilitate the microfinance sector, particularly by improving the quality of financial and accounting information through the implementation in 2016 of the centralized I.T. solution for monitoring decentralized financial systems (SICS-SFD). In operational terms and with regard to supervision of the sector, in the year 2018, the National Decentralized Financial Systems Surveillance Agency (ANSSFD) continued implementing the microfinance sector rehabilitation strategy document, which is based on the following three pillars: (i) application of the law to all authorized DFSs; (ii) application of the law to all entities operating illegally; and (iii) continued strengthening of the stability and balanced operation of the decentralized finance sector with a view to ensuring its long-term sustainability. To that end, a national census of microfinance initiatives will be carried out to update the list of institutions operating on the fringes of regulation.

PROGRAM FOR 2019

22. The objective of the three-year program (2017-2019) signed by the IMF and the government of Benin is to lay the foundation for accelerated and inclusive growth while preserving macroeconomic stability and public debt sustainability. Implementation of the reforms is expected to make it possible to: (i) create more fiscal space through the mobilization of additional domestic resources; (ii) enhance the efficiency of public expenditure, particularly investments, and (iii) improve governance and the business environment with a view to stimulating private sector activity. The macroeconomic framework envisages growth of 6.5 percent, supported essentially by the strong performance of the agricultural sector, increased private sector investment, the positive effects of Nigeria's economic recovery, and heavy port traffic. Following the jump in food and oil prices in 2018, inflation is projected at 2.0 percent on average in 2019. The current account deficit (including grants) is expected to narrow to 8.2 percent of GDP in 2019, thanks to the sustained growth of exports in response to the revitalization of the cotton sector and a decline in imports driven by the scaling down of public investment.

A. 2019 Budget Law

23. In December 2018, the National Assembly passed the 2019 Budget Law in accordance with the draft submitted by the government and the program objectives. The fiscal deficit, on a commitment basis (grants included), is expected to reach 2.7 percent of GDP in 2019, compared to 4.7 percent in 2018. Government revenue is expected to amount to 17.7 percent of GDP, while total expenditure would be contained at 22 percent of GDP, compared to 23.9 percent in 2018.

24. The 2019 Budget Law is based on exceptional tax revenue mobilization. Tax expenditures are expected to decrease by an amount equivalent to 1.2 percent of GDP in 2019 (**in part as a result of the elimination by the budget law of tax expenditure equivalent to CFAF 60 billion and the implementation of a system to control the exemptions granted under the special investment regimes**). In addition, the budget will adopt other tax-related measures such as a withholding tax on hydrocarbon sales carried out in Benin by nonresidents, enlargement of the base of the visitors' tax in hotels and similar establishments, as well as the transfer of responsibility for collection of the tax to the DGI, and an increase in the rate of the tax on tobacco and cigarettes. All these tax policy measures, coupled with the pursuit of revenue agency reforms, are expected to result in the mobilization of CFAF 1112.0 billion in government revenue in 2019. At the same time, we are continuing to rationalize public expenditure. It will decrease by 1.3 percent of GDP in 2019 owing to improved control of the wage bill and the decline in public investment.

25. We inherited from previous governments wage promises to civil servants as well as unpaid debt vis-à-vis domestic suppliers, some of which we decided to honor in 2019 to preserve the climate of social peace. The 2019 budget includes a provision of CFAF 20 billion to begin the process of settling these debts. **An audit will be conducted by end-January 2019 to update the estimated stock of services that were not paid to suppliers.**

26. Should the revenue generated by the tax reforms fall short of the budget forecasts, the government will ensure attainment of the fiscal deficit target by slowing the execution of public investment and the settlement of past wage promises to civil servants made by previous governments.

B. Public Expenditure Program and Efficiency

27. Pending the World Bank review of public spending, we have since 2016 undertaken to consolidate the wage bill. The key measures implemented to hold back the pace of wage bill increases have included: (i) the biometric census of civilian personnel, which identified 1,355 ghost workers; (ii) the bancarization of bonuses and allowances not included on pay slips since 2017; and (iii) the repeal of several decrees and regulations that systematically granted benefits. With the help of these measures, savings of about half a percent of GDP will be achieved in 2019 and will be allocated in part to clearing a portion of the wage promises made to civil servants by former governments. To improve the efficiency of public investment, we have begun to implement the recommendations of the Public Investment Management Assessment (PIMA) report, focusing on the following four areas: (i) strengthening the institutional framework; (ii) ensuring the availability and sustainability of financing; (iii) better preparing, selecting and implementing projects (specifically by publishing their selection criteria); and (iv) ensuring sustainable investments. An IMF Fiscal Affairs Department mission planned for the first quarter of 2019 should help us prepare a midpoint review of the implementation of the PIMA report recommendations.

28. As well, a pilot phase of the government's social protection project—"*Assurance pour le renforcement du capital humain* ARCH''—will begin in late 2018, targeting poor populations for the first three quarters of 2019 and expanding to the general population starting in 2020. The government will cover the entire premium for those in extreme poverty and will provide a partial subsidy of the premium paid by populations categorized as impoverished but not in extreme poverty. The insurance system is based on an innovative mechanism for targeting poor populations and the establishment of a single social register in cooperation with the World Bank.

C. Public Debt Management

29. The Autonomous Amortization Fund (CAA) plans to continue its efforts to optimize the debt portfolio. The aim is in part to align the maturity of the debt with that of financed projects, and also to achieve a balanced distribution between the stocks of foreign and domestic debt. The CAA plans to update the 2017-2021 debt strategy document next year to better take into account the above objectives. It also plans to continue its capacity-building activities with assistance from Development Finance International (DFI) to modernize the public debt database management system and assistance from West AFRITAC to evaluate its organizational system following the 2015 reforms. The recruitment of qualified personnel to reduce operational risk also remains an objective. Implementation of the mechanism to monitor public enterprises should also be stepped up in the context of the medium-term debt strategy.

D. Public Enterprise Reform

30. Public enterprises continue to be a burden on the government budget owing to their weak economic and financial performance. Over the past four years, their contribution to the national budget in the form of taxes, levies and dividends stood at 0.3 percent of GDP while at the same time they received subsidies equivalent to 1.5 percent of GDP. New auditors have been appointed at the 189 public enterprises and government offices. The government has also validated the new draft law on public enterprises. This law, which has been submitted to the National Assembly but has not yet been adopted, covers the creation, organization and operation of public enterprises and aims to improve their governance and thus their economic and financial performance. The future law calls for close government monitoring of the economic and financial position of public enterprises, and public enterprises will henceforth be required to transmit their financial statements— supplemented with audit reports— to the Ministry of Economy and Finance by the prescribed deadline. Moreover, a consolidated report on the economic and financial position of public enterprises will be attached to the budget starting in 2019, once the law has been adopted.

31. To limit the impact of public enterprises on the budget, the government also plans to define a dividend policy for each enterprise in order to make them accountable for achieving results while ensuring financial management consistent with their development. **The government has decided to conclude performance contracts with the main public enterprises by the end of 2018**. Such a contract is already in place for the Autonomous Port of Cotonou and one will soon be for the *Société Béninoise d'Énergie Électrique* (SBEE) with support from the Millennium Challenge Account. We plan to expand this measure to other public enterprises by end-2019 in the context of the new law.

E. Infrastructure Projects and Public-Private Partnerships

32. Following the establishment of the legal and regulatory framework for public-private partnerships (PPP) by Law 2016-24 of June 28, 2017, the government adopted implementing decrees to take account of the new institutional framework for the promotion of investment in Benin. The institutional framework has entered into effect, thanks in particular to technical assistance from the World Bank. Analysis of the options for financing GAP projects has led to the compilation of a catalog of PPP projects. In accordance with international best practices, we will ensure that: (i) investments in PPPs are included in the budget documents and public finance statistics; and (ii) liabilities relating to PPPs are assessed and annexed to the budget law. We will analyze the fiscal risks relating to these PPP projects.

33. As well, the government has entered into preliminary discussions with the People's Republic of China on a future partnership to finance the construction of the Glodjigbé International Airport. At this stage, the financing package and schedule of works have not yet been finalized. We will take adequate measures together with the IMF team to ensure that the financing of this project is reflected in the public accounts in accordance with international best practices, minimize the risks on public finances, and does not jeopardize public debt sustainability.

F. Business Environment

34. To make Benin an attractive destination for investors, a new investment promotion mechanism was put in place in 2017, streamlining the institutional and regulatory framework for investment promotion in Benin. The strategic plan included the creation of an Interministerial Investment Promotion Committee to improve government coordination on issues related to the business environment and to provide a coordinated response to the needs and expectations expressed by investors. At the operational level, the Agency for the Promotion of Investment and Exports (APIEX) has been restructured to become the sole gateway for investors and showcases the promotion of investments and exports in Benin. The APIEX is thus: (i) the one-stop window for business creation, making it possible to shorten the business creation time to a few hours; (ii) the technical body responsible for reviewing applications for approval under the Investment Code; (iii) the Executive Secretariat of the PPP Support Unit; (iv) the focal point for the implementation of the *Doing Business* reforms; (v) the administrative authority for the special economic zones; and (vi) the export information and facilitation center. As well, we amended and supplemented the land code in 2017, resulting in amending law 2017-15 of August 10, 2017. This new law shortens the time needed to obtain real estate titles and removes the constraints on the purchase of real property for foreign investors.

35. Under the new arrangement, a specific institutional framework for implementing the *Doing Business* reforms has been adopted, along with a matrix of annual actions. Two draft laws designed to facilitate private investment have been finalized and submitted to Parliament for adoption (not yet adopted), one amending the investment code and the other focused on the promotion and development of micro-, small and medium-sized enterprises in Benin. The innovations introduced by the new Investment Code include:

- simplification of the approval mechanisms (three mechanisms with clear and precise incentives during the startup and operating periods, two alternative mechanisms to further encourage investors interested in the priority sectors of the national economy);
- professionalization of the processing of accreditation files, and time-limit on the technical decision;
- improvement of the investment monitoring system;
- incorporation of international best practices for the preparation of investment codes and, in particular, the comments provided by the UNCTAD on the existing code; and;
- structuring of incentives in such a way as to make Benin more competitive and ensure the consistency of its investment code provisions with the series of exemptions granted investors in the special economic zones, as well as with the specific government assistance initiatives designed to promote national entrepreneurship.

36. The aim of the Law on Micro-, Small, and Medium-Sized Enterprises (MPME) is to formalize the transposition into national law of the provisions of the WAEMU Community Charter for MPMEs adopted in December 2015. The key innovations involve:

- the establishment of a mechanism for the identification and categorization of MPMEs eligible for specific government measures and assistance;
- the establishment by law of an agency responsible for implementing the national policy on the promotion of MPMEs;

- Assistance and support measures for MPMEs, including market access facilities, protection against government payment delays, and the incentive to co-contract and subcontract with large enterprises;

- tax facilities and incentives for the creation and maintenance of MPMEs (for MPMEs that process local raw materials and for business incubators);

- measures to promote and finance MPMEs (technical assistance, facilities for access to land and developed sites, specific financing and guarantee mechanisms or institutions); and;

- measures to support struggling MPMEs.

37. As well, Parliament has adopted a new law on hiring that aims to promote job creation. This law has corrected a number of legal loopholes, particularly those relating to hiring for trial periods, which has long been unregulated, and the types of contracts, including fixed-term contracts, that can be renewed indefinitely. Moreover, the new law allows foreigners to work under open-ended contracts, whereas previously they only had access to fixed-term contracts. The new law also eases the licensing conditions and sets a maximum limit of 9 months of compensation in the event of dismissal l deemed abusive by the courts.

G. Financial System

38. One local bank is facing operational difficulties that could lead it to close its doors and have its license revoked by the WAEMU Banking Commission (BC). In view of this situation, the government has decided, after consulting with the Banking Commission, to purchase this bank at its equity value, estimated at around CFAF 10 billion. However, the government considers this rescue operation an exceptional event under specific circumstances. In the future, the government commits to consider assisting only banks that can be viewed as presenting a systemic risk to financial stability.

39. In the context of its support for the bank, the government is preparing a restructuring plan with a mechanism for divestment within approximately three years. The restructuring plan will be in line with international best practices, particularly in the areas of management and control, risk management, operations, the resolution of nonperforming loans, and capital and liquidity planning. In the interest of transparency and accountability, the government as owner will produce progress reports on the restructuring plan that will include an update of the estimated cost for the taxpayer.

40. To modernize the financial sector, the government has also, by Law 2018-38 of September 7, 2018, reactivated the Caisse de Dépôts et Consignations (CDC), which was created on August 31, 1973 by Order No. 073-60. It is a corporate body with financial autonomy whose essential mission is to receive and conserve movable assets deposited with it and to return them to their rightful owners. It is thus responsible for administering deposits and consignments, providing services relating to the cash and funds whose management is entrusted to it, and receiving administrative and court-ordered consignments and sureties. In general, the CDC has general interest missions in support of the public policies of the central and local governments, particularly in the areas of economic and social development. To achieve them, the CDC has put in place investment and risk management policies and strategies that should enable it to better use resources and generate yields above the average cost of government borrowing. To this end it is adopting prudential rules in line with best practices for investment and risk management.

41. At the practical level, in the context of the modernization of the financial sector of Benin, the CDC will enable the government to: (i) hold equity in companies that it wishes to support or from which it simply wishes to receive dividends, like any shareholder; (ii) work alongside the banking system by making deposits in banks at reduced costs;[2] (iii) participate in the financing of social projects; and (iv) assist effectively in the financing of the economy by making public securities more attractive (proposed purchase of public securities at low rates by the CDC).

42. We also plan to continue to improve the capacity of the judges and courts to rule on financial matters. The new commercial tribunal will help to resolve business disputes. As in previous years, the BCEAO has, in the context of its training program for the judicial profession, undertaken to help build the capacity of judges and magistrates in matters relating to the WAEMU financial regulations.

43. To promote financial inclusion in Benin, the government has taken measures such as the creation of permanent mechanisms for the mobilization of resources by microfinance institutions (SFDs) and improved promotion and coordination of the microfinance sector.

44. To promote the sector, the National Microfinance Fund (FNM) has prepared a new strategic plan for 2017-2021, founded on the following three strategic pillars: (i) facilitating access to appropriate financial resources for microfinance institutions; (ii) building operational capacity and promoting social and technological interventions; and (iii) strengthening governance and the sustainability of FNM actions. In addition, the government, through the Ministry responsible for social affairs and microfinance (MASM), has begun preparing the FinScope survey, the first stage in the Making Access to Financial Service Possible (MAP) process, which is to culminate in the development of a national financial inclusion strategy in line with the regional financial inclusion strategy developed by the BCEAO. Finally, financial inclusion will be strengthened with the implementation in 2019 of the microfinance component of the Insurance to Build Human Capital (ARCH) project.

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[2] This will provide the banks with less expensive resources that they can use to grant loans to their customers at more competitive rates. Currently, support from banks to the private sector is severely limited by the very high cost of deposits.

H. Rebasing of the National Accounts

45. Since 2016, the government has supported the project for the rebasing of the national accounts and implementation of the *2008 System of National Accounts* (*2008 SNA*). This initiative will lead to significant improvements in: (i) the quality and coverage of the data sources for the national accounts; and (ii) the incorporation of the *2008 SNA* innovations regarding the goods and services accounts. The National Statistics and Economic Analysis Institute (INSAE) received an IMF technical assistance mission on the national accounts statistics in June 2018. The purpose of this mission was to assist INSAE in: (i) reviewing the estimation methods and the new additional information for the work to rebase the GDP; (ii) reviewing the sources for the revision of GDP, particularly the contribution of the informal sector; and (iii) analyzing the quality of the supply and use tables and the level of GDP in the new base year of 2015. Following this mission, it was apparent that a survey of informal cross-border trade (ECENE) was a priority to correctly estimate total demand and finalize the supply and use balances (SUB). INSAE has committed to conducting this survey, which involves four rounds of visits. Processing of the data from the first round of visits, which has already taken place, will begin in late October 2018, and the final revised estimates are expected no later than end-July 2019.

I. Quantitative Performance Criteria and Structural Benchmarks

46. Quantitative performance criteria have been set for end-June 2019 and indicative targets for end-March, end-September and end-December 2019 (table). The structural benchmarks for 2019, as well as their macroeconomic justifications, are described in the table. The fourth and fifth program reviews are expected to be completed on or after April 30 and October 31, 2019, respectively.

Table 1. Benin: Status of Quantitative Performance Criteria and Indicative Targets, 2018-19[1]

(Billions of CFA francs)

	March 31, 2018				June 30, 2018				September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
	Indicative Targets				Performance Criteria				Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets	Indicative Targets
	Prog.	Adjusted	Prel.	Status	Prog.	Adjusted	Prel.	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]														
Net domestic financing of the government (ceiling)[3,4,5]	74.7	89.7	43.0	Met	190.9	205.9	71.1	Met	103.0	118.8	15.0	45.9	68.8	36.0
Basic primary balance (excluding grants) (floor)	-69.7		-18.5	Met	-47.5		-17.7	Met	-20.3	3.9	15.6	44.5	47.7	120.7
Total revenue (floor)	204.8		209.5	Met	445.5		475.1	Met	707.1	1021.6	235.1	505.5	762.5	1112.4
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
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9		24.3	Met	468.9		125.0	Met	468.9	468.9	468.9	468.9	468.9	468.9
Accumulation of domestic payments arrears	0.0		2.3	Not Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Contracts by the government for the prefinancing of public investments projects	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
C. Memorandum Items[2]														
Priority social expenditure (floor)	15.0		35.8	Met	50.0		79.3	Met	101.0	167.0	37.2	82.5	140.7	180.0
Memorandum item: Budgetary assistance	22.6		0.0		22.6		0.0		39.6	55.4	0.0	0.0	22.8	45.4

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] The performance criterion on net domestic financing is automatically adjusted as indicated in the TMU.

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

[4] 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.

[5] 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 unless it is used to reduce domestic payment arrears.

Table 2. Benin: Structural Benchmarks for 2018–19 and Macroeconomic Rationale

Measures	Dates	Rationale	Status
Submit a 2019 budget that is consistent with the ECF-supported program to the parliamentary commission for consideration.	**Prior action for Third Review**	Preserve fiscal sustainability.	Met
Revenue mobilization			
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	Met
Implement a plan to strengthen tax compliance.	June 2018	Increase fiscal revenues by improving tax compliance-risk management.	Met
The 2019 adopted budget eliminates tax expenditures equivalent to FCFA 60 billion (MEFP ¶24).	December 2018	Foster revenue mobilization.	
Implement the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones (MEFP ¶24).	June 2019[1]	Fight fiscal fraud and rationalize exemptions.	
Public financial management			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State.	June 2018	Improve economic governance.	Met
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Increase transparency, timeliness and accuracy of budget information.	Met

[1] The deadline is revised from December 2018 to June 2019, since the authorities want to incorporate the measure in the future investment code.

Table 2. Benin: Structural Benchmarks for 2018–19 and Macroeconomic Rationale (concluded)

Measures	Dates	Rationale	Status
Adopt a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify governance weaknesses.	Not met (implemented in November 2018)
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at the end of December 2018 (MEFP ¶25).[1]	January 2019	Enhance fiscal transparency.	
Financial sector			
The Ministry of Finance should establish a credit bureau (MEFP ¶19).[2]	December 2018	Improve crisis management.	
The Ministry of Finance should adopt a legal decision to strengthen the implementation of the regulatory framework for the licensing and supervision of microfinance institutions (MEFP ¶21).[3]	December 2018	Promote financial inclusion	
State-owned enterprises reform			
Complete the data collection of SOEs' debt and operationalize the monitoring framework.	September 2018	Better monitor contingent liabilities and improve public debt management.	Met
Set performance contracts with key SOEs (MEFP ¶31).	December 2018	Improve SOEs contribution to government revenues.	

[1] The unpaid services to suppliers were inherited from the previous governments.

[2] The SB was simplified, since bank resolution measures are not the responsibility of national authorities.

[3] The SB was edited to be more specific about the type of measure taken by the Ministry of Finance.

Attachment II. Technical Memorandum of Understanding

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

PROGRAM ASSUMPTIONS

2. **Exchange rates under the program.** For the purposes of this Memorandum, 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 exchange rates agreed upon for the program projections. The key exchange rates are presented below.[3]

CFAF/US$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

DEFINITIONS

3. Unless otherwise indicated, "government" is understood to mean the central government 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).

4. The definitions of "debt" and borrowing for the purposes of this Memorandum 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 a number of forms; the primary ones being as follows:

[3] 2018 exchange rates as at August 18, 2017.

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 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 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 the loan 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 LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.[4] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and

(d) Domestic debt is defined as debt denominated in CFA francs, unless it is contracted with another member state.

(e) "External debt" is defined as debt denominated in any currency other than the CFA franc and debt in CFA francs contracted with another member state;

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

5. Net domestic financing (NDF) 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 shares 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 BCEAO credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.

6. 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 local 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, except for industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and local commercial banks, including Treasury bills and other securitized debt.

7. The data 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.

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[4]The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Spring 2018 World Economic Outlook (WEO).

8. 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

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 74.7 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103.0 billion at end-September 2018; and CFAF 118.8 billion at end-December 2018. The ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF 45.9 billion at end-June 2019; CFAF 68.8 billion at end-September 2019; and CFAF 36 billion at end-December 2019. The ceiling is a performance criterion for end-June 2019, and an indicative target for end-September and end-December 2019.

Adjustments

11. Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- 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.

- 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 15 billion at end-June 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

12. 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 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 0 billion at end-June 2019; CFAF 22.8 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

B. Floor of the Basic Primary Fiscal Balance

Definition

13. The basic primary fiscal balance is defined as 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) interest payments 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

14. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than minus CFAF -69.7 billion at end-March 2018; minus CFAF -47.5 billion at end-June 2018; minus CFAF -20.3 billion at end-September 2018; and CFAF +3.9 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

15. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.5 billion at end-September 2019; and CFAF 120.7 billion at end-December 2019. The floor for end-June 2019 is a performance criterion and the floors for end-September and end-December 2019 are indicative targets.

C. Floor of Total Government Revenue

Definition

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

Performance Criteria and Indicative Targets

17. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 707.1 billion at end-September 2018; and CFAF 1,021.6 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

18. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2017; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-December 2019. The floor for end-June 2019 is a performance criterion and the floors for end-September and end-December 2019 are indicative targets.

D. Non-Accumulation of New Domestic Payments Arrears by the Government

Definition

19. Domestic payments 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 Amortization Fund (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 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

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

E. Non-Accumulation of External Payments Arrears by the Government

Definition

21. 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 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

22. The government undertakes not to accumulate any external public payments 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 payments arrears will be continuously monitored throughout the program.

F. Ceiling on the Amount of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More

Definition

23. 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. As indicated in paragraph 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

24. The term "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 3, 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.

Continuous Performance Criterion

25. The present value of new external borrowing contracted or guaranteed by the government in 2018 will not exceed a cumulative amount of CFAF 468.9 billion. 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.

G. Ceiling on Pre-Financing Contracts for Public Investments

Definition

26. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury's account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

27. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS

H. Floor for Priority Social Expenditures

28. Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, *inter alia*: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education; and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFIP).

Definition

29. 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 below.

Table 1. Priority Social Expenditure Categories

Budget code	Description
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
46	Ministry of SMEs and the promotion of employment
39	Ministry of Agriculture Livestock, and Fisheries
26	Ministry of Justice
52	Ministry of labor and public affairs
51	Ministry of infrastructure and transport
40	Ministry of tourism, culture and sport
41	Ministry of social affairs and microfinance
27	Ministry of Plan and Development
60	Ministry of domestic and public security
44	Ministry of Higher Education and Scientific Research
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
34	Ministry of Living Standards and Sustainable Development

Indicative Target

30. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

31. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

INFORMATION FOR PROGRAM MONITORING

I. Data on Performance Criteria and Indicative Targets

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

Every month:

- 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 claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by 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;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

- Data pertaining to the amount of exceptional payment orders 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.

J. Other Information

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

Every month:

- Bank 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 loan agreements 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 review law; as well as any decree or law pertaining to the budget or the implementation.