

INTERNATIONAL MONETARY FUND

BENIN

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

Prepared by the African Department
(In consultation with other departments)

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Benin reached the completion point under the enhanced HIPC Initiative on March 24, 2003.

Macroeconomic Performance

1. **Status of Fund arrangement.** The Fund Executive Board approved a three-year Poverty Reduction and Growth Facility (PRGF) arrangement on August 5, 2005. The first review of the arrangement is expected to be concluded in the second half of February 2006. Performance under the program has been satisfactory and preliminary data received from the authorities suggest that all performance criteria for end-September 2005 have been met.
2. **Recent Macroeconomic Developments.** Since Benin reached the completion point under the enhanced HIPC Initiative, economic growth has slowed down, albeit with some recovery in 2005. Inflation has remained low, despite increases in prices for oil and food, the latter due to the food crisis in neighboring Niger. Fiscal performance is on track although this has required expenditure cuts to offset revenue shortfalls. The external sector has weakened somewhat owing to deterioration in trade relations with Nigeria and unfavorable terms of trade developments that have only been partly offset by stronger cotton exports. Nevertheless, the program remains broadly on track.
3. **Summary Assessment.** Given the approval of the new PRGF arrangement on August 5, 2005, by the Fund Executive Board, and continued good macroeconomic performance thereafter, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy

4. **Recent Developments.** Benin prepared a PRSP progress report in June 2005 that was discussed during joint Government/donor annual reviews. The Government plans to organize broad participatory consultations with all stakeholders both at the national and regional levels to build a consensus on the strategic priorities of the PRSP II that should be completed after the Presidential elections scheduled for spring 2006. The PRSP II would draw on the

lessons of the implementation of the first PRSP over the period 2003-2005, with a renewed focus on the formulation of a comprehensive private sector development plan given the importance of accelerating economic growth in reducing poverty. Although some progress has been achieved in sustaining economic growth in a stable macroeconomic framework and improving some social indicators (in particular with regards to nonmonetary poverty indicators, including maternal and child health and an increase in socio-community investments), progress in reducing poverty has been slow as stated in the PRSP progress reports.

5. **Summary Assessment.** Given the track record of satisfactory implementation of the poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI relief is met.

Public Expenditure Management System

6. **Recent Developments.** Benin has improved public expenditure management in the context of PRGF-supported programs, PEAC, and PRSC program agendas and has maintained a steady evaluation according to the HIPC AAP ratings as measured before and after Completion Point.¹ There have been some delays in completing budget audit reports, but the Government has increased the number of staff devoted to the task and they seem to be catching up. While progress has been made in budget preparation, execution, reporting and transparency, and in reducing fiduciary risk, existing weaknesses in the public expenditure management system are being addressed in a comprehensive reform program.

7. **Summary Assessment.** Staff is of the view that the criterion on the quality of PEM systems to qualify for MDRI debt relief is met.

Provision of Information to the Fund

8. Benin's data provision to the Fund is adequate for surveillance and program monitoring.

Payments to International Financial Institutions

9. Benin is current on its financial obligations to the Fund.

¹ At the time of the HIPC completion point Benin met 7 out of 14 AAP benchmarks. As of the June 2005 review, the situation with respect to the AAP benchmarks remained unchanged.

Overall Assessment

10. Staff is of the view that all three criteria are met, and recommends that the Board determine that Benin qualifies for immediate debt relief under the MDRI.

Benin: Selected Macroeconomic Indicators, 2000-05
(annual percent change; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005 (Est.)
Real GDP	4.9	6.2	4.5	3.9	3.1	4.0
Inflation (e.o.p.)	9.8	2.3	1.2	0.8	2.6	4.0
Real effective exchange rate	-4.2	3.2	5.5	4.1	2.6	...
Broad money	21.2	12.7	-3.8	6.3	-6.7	8.2
Overall fiscal balance including grants (in percent of GDP)	-1.7	-1.4	-2.3	-2.0	-1.8	-2.3
Current account balance including grants (in percent of GDP)	-7.7	-6.4	-8.4	-8.3	-8.1	-8.2
Foreign exchange reserves (in months of imports)	8.6	10.8	8.8	7.9	5.6	6.2

Benin: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief 1/
(in millions of U.S. dollars; unless otherwise indicated)

	2004	2005 (Est.)	2006 (Proj.)		2007 (Proj.)	
			Before MDRI	After MDRI 2/	After MDRI	After MDRI
PPG External debt	1414.5	1520.5	1623.5	577.8	648.8	648.8
<i>of which owed to the Fund</i>	59.6	54.6	54.6	2.4	4.7	4.7
<i>of which owed to IDA</i>	698.0	763.7	829.1	139.4	208.3	208.3
<i>of which owed to AfDF</i>	311.1	331.9	351.8	45.7	69.8	69.8
NPV of PPG external debt to exports 3/	142.1	139.4	142.3	29.0	35.3	35.3
Debt service to exports 3/	6.9	6.1	6.6	2.4	2.2	2.2
PPG External debt to GDP (in percent)	32.4	34.1	34.3	11.5	12.0	12.0
NPV of PPG External debt to GDP (in percent)	17.6	18.8	19.2	3.9	4.8	4.8

1/ After HIPC assistance.

2/ Assuming delivery on January 1, 2006 for the Fund and the AfDF, and on July 1, 2006 for IDA.

3/ Exports of goods and services for the year under consideration.