

**Benin: Sixth Review Under the Three-Year Arrangement and Request Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin**

In the context of the Sixth Review Under the Three-Year Arrangement and Request Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **December 17, 2003**, with the officials of Benin on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on February 19, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a press release summarizing the **views of the Executive Board as expressed during its March 29 2004 discussion** of the staff report that concluded the review and request.
- a statement by the Executive Director for Benin.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Benin\*

\*May also be included in Staff Report

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INTERNATIONAL MONETARY FUND

BENIN

**Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility**

Prepared by the African Department

(In consultation with other departments)

Approved by Menachem Katz and Anthony Boote

February 19, 2004

- Discussions for the sixth review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Cotonou during December 3-17, 2003. The three-year arrangement for SDR 27 million (43.6 percent of quota) was approved on July 17, 2000 (EBS/00/130; 7/10/00). It was extended to end-March 2004 in July 2002, and six disbursements have so far been effected. Benin's outstanding use of Fund resources amounted to SDR 49.2 million (79.5 percent of quota) at end-December 2003. Benin reached the completion point under the enhanced HIPC Initiative on March 24, 2003.
- The Beninese representatives included Mr. Amoussou, Minister of State in Charge of Planning; Mr. Laourou, Minister of Finance and Economy; Mr. Daouda, National Director of the Central Bank of West African States (BCEAO); and other senior government officials. The mission was received by President Kérékou. The staff members were Mr. Ewencyk (head), Mr. Harmsen (Resident Representative), Mr. Nsengiyumva, Mr. Yulek, Mr. Nachega, Ms. Babihuga (all AFR), and Ms. Kanyabutembo (Assistant, AFR). Ms. Gaye and Ms. Leroy from the World Bank participated in the discussions.
- All the performance criteria and structural benchmarks for end-September 2003 were met, and Benin's macroeconomic performance in 2003 was broadly satisfactory, with real GDP growth at 5½ percent, inflation contained at below 2 percent, and the external current account deficit narrowing by 1 percentage point of GDP. The fiscal program was on track. However, progress in structural reforms was mixed; in particular, privatization in the cotton sector incurred new delays.
- The authorities remain committed to the implementation of the policies and reforms underpinning the PRSP. The 2004 budget reflects the PRSP priorities and was prepared with the support of all major donors. The structural reform agenda focuses on the divestiture of the ginning company and public utilities, and the elaboration of a new civil service strategy.
- The next Article IV consultation discussions are scheduled for April 2004. In the interim, an ex post assessment of Benin's prolonged use of Fund resources will be prepared.

	Contents	Page
I.	Introduction.....	4
II.	Recent Economic Performance.....	4
III.	The Government's Program for 2004.....	6
	A. Fiscal Policy and Budget Reform .....	7
	B. Regional Monetary Policy and the Financial Sector.....	10
	C. Other Structural Reforms.....	10
	D. Governance .....	11
IV.	Poverty Reduction Strategy .....	12
V.	External Sector Outlook and Capacity to Repay the Fund .....	12
VI.	Monitoring Indicators .....	12
VII.	Assessment of Program Implementation Since 2000 .....	13
VIII.	Staff Appraisal .....	14
Boxes		
1.	Commercial Banks' Compliance with Prudential Norms, 2001-03 .....	16
2.	Compliance with WAEMU Convergence Criteria, 1999-2003 .....	17
3.	External Debt and the Paris Club Rescheduling.....	18
4.	External Debt Sustainability .....	19
Figures		
1.	Selected Economic and Financial Indicators, 1994-2006.....	20
2.	Selected External and Monetary Indicators .....	21
3.	Effective Exchange Rates and Terms of Trade, January 1993-October 2003 .....	22
Tables		
1.	Fund Position During 2004-06.....	23
2.	Main Economic Indicators, 2000-06.....	24
3.	Macroeconomic Indicators, 2000-06 .....	25
4.	Consolidated Government Operations, 2000-06.....	26
5.	Monetary Survey, 2000-04 .....	27
6.	Balance of Payments, 2000-06 (in millions of CFA francs).....	28
7.	Balance of Payments, 2000-06 (in millions of U.S. dollars) .....	29
8.	External Debt and Scheduled Debt Service, 2000-06.....	30
9.	Indicators of Fund Credit, 2000-06.....	31
10.	Public Expenditure for Health and Education, 2001-04 .....	32

11.	Selected Demographic and Social Indicators .....	33
12.	Financial and Structural Benchmarks and Performance Criteria Under the 2003 Program .....	34
13.	Indicative Targets for 2004 .....	35
14.	Structural Benchmarks and Prior Actions for the Sixth Review of the PRGF Program.....	36
15.	Use of Enhanced HIPC Funds, 2000-04 .....	37
16.	Summary of Key Structural Measures, 2003 .....	38
 Appendices		
I.	Letter of Intent. ....	39
II.	Relations with the Fund .....	41
III.	Relations with the World Bank Group.....	46
IV.	Statistical Issues .....	52

## I. INTRODUCTION

1. This report reviews developments during 2003 in the context of the **sixth and final review under the Poverty Reduction and Growth Facility (PRGF) arrangement**, and sets forth the policies and measures the government intends to implement during 2004 in the context of its poverty reduction strategy. The report also assesses the country's economic and financial progress since 2000, when the current arrangement was approved by the Fund. In the attached letter to the Managing Director (Appendix I), the authorities request the completion of the sixth review and the release of the last disbursement (SDR 1.35 million). Benin's financial position in the Fund is summarized in Table 1 and Appendix II.

2. **On the political front**, the parties supporting President Kérékou obtained a large majority in the March 30, 2003 legislative elections. In a cabinet reshuffle in June 2003, the two key ministers in charge of economic affairs retained their positions. There was a one-week border closure with Nigeria in August 2003. On the social front, a series of civil service strikes began during the last quarter of 2003 and lasted until late November, when the government decided to grant a 5 percent wage increase to civil servants, effective January 1, 2004.

## II. RECENT ECONOMIC PERFORMANCE

3. **Benin's macroeconomic performance was broadly in line with the program objectives in 2003** (Tables 2 and 3). **All the quantitative performance criteria for September 2003**—as well as the corresponding indicative quantitative targets for end-December 2003—were met (Table 12); the structural benchmarks for end-September 2003 were also met, although with some delay for one benchmark (Table 14). Real GDP growth is estimated to have reached 5½ percent in 2003, driven by growth in construction, manufacturing, and services (Figure 1). Average inflation was contained at below 2 percent. The external current account deficit narrowed from 9 percent of GDP in 2002 to 7.8 percent in 2003. The real effective exchange rate appreciated by 2.1 percent (during the 12-month period through October 2003), owing mainly to the strengthening of the euro against the U.S. dollar (Figure 3).

4. **Overall fiscal performance in 2003 was broadly satisfactory.** The overall fiscal deficit, at 4.2 percent of GDP, is estimated to have been 0.4 percentage point below the target level (Table 4). Revenue collection (16.8 percent of GDP), however, fell slightly short of target (17 percent of GDP) despite the strong actions taken, beginning in the second quarter of the year, which started to address the shortcomings in customs administration experienced during the first quarter of 2003.<sup>1</sup> On the expenditure side, there was an overrun on the wage

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<sup>1</sup> Fiscal developments during the first quarter of 2003, as described in "Benin—Fifth Review Under the Poverty Reduction and Growth Facility" (IMF Country Report No. 03/322; 8/27/03), were marked by a revenue shortfall—reflecting weaknesses in customs

(continued)

bill (0.3 percent of GDP), resulting mostly from recruitments in the education sector and unplanned indemnities to teachers,<sup>2</sup> while government investment remained sizably below target (by 1.3 percent of GDP).<sup>3</sup>

5. In parallel, the authorities strengthened **public expenditure management**. In particular, since September 2003, external debt-service operations have been channeled through the computerized expenditure management system (SIGFIP)—a structural benchmark for end-September 2003.

6. Following a strong expansion during 1998-2001, the contraction of broad money, which started in 2002, continued during the first three quarters of 2003 (Table 5).<sup>4</sup> During this period, the contraction was underpinned by a deterioration in the net foreign assets of the banking system—reflecting in part delays in cotton exports<sup>5</sup>—which outweighed the expansion of credit to the nongovernment sector. **The financial health of the banking sector continued to improve** (Box 1). The temporary receivership status of the Continental Bank was discontinued, as its recovery plan was implemented satisfactorily, and the divestiture of the government's shares in this bank—a structural benchmark—was initiated in January 2004.

7. **Progress in the implementation of the structural reforms was mixed.** As mentioned above, the structural benchmarks for end-September 2003, which aimed at improving expenditure management and strengthening the banking sector, were met

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administration, particularly regarding customs valuation and the fight against fraud—and election-related spending overruns.

<sup>2</sup> Outlays for education and health, however, increased sizably, reaching 93 percent of the target for end-December 2003, compared with 59 percent at end-March and 86 percent at end-June and end-September (Table 12).

<sup>3</sup> The shortfall in investment reflected in part the decision by the authorities in May 2003 to cut capital expenditure by CFAF 10 billion to offset overspending at the beginning of the year (see “Benin—Fifth Review Under the Poverty Reduction and Growth Facility,” IMF Country Report No. 03/322); the investment performance also suffered from the late initiation of investment outlays.

<sup>4</sup> The measurement of currency in circulation in individual member countries of the Central Bank of West African States (BCEAO) is subject to large uncertainties, arising from long delays in the sorting of the banknotes. This leads to frequent, sometimes very large, changes in the measurement of currency in circulation and gross foreign assets of the BCEAO.

<sup>5</sup> Delays in cotton exports were mostly due to the late start of the commercialization of seed cotton, following protracted negotiations of the farm-gate price between producers and ginners.

(Table 14). Regarding civil service reform, the authorities started in early 2003 to hire employees on fixed-term contracts to replace retiring civil servants, and to apply a merit-based wage system to these contractual employees. Discussions on a new civil service strategy were initiated with the trade unions in the second half of the year.<sup>6</sup> However, the privatization of the public ginning company (SONAPRA), a key element of the structural reform agenda, incurred further delays. An investment bank was recruited with World Bank assistance in May 2003 through a competitive bidding process to help the authorities carry out the privatization in full transparency. The prequalification process for potential investors launched in July was interrupted,<sup>7</sup> but it resumed in early December with the launching of a new prequalification bidding and is now expected to be completed by end-May 2004.

8. **Benin continued to be one of the most compliant members of the West African Economic and Monetary Union (WAEMU) regarding the regional Convergence, Stability, Growth, and Solidarity Pact (Box 2).** The authorities have also taken the necessary steps to comply with the regional nomenclature in the context of the WAEMU common trade policy.

### III. THE GOVERNMENT'S PROGRAM FOR 2004

9. **The authorities intend to pursue the implementation of the poverty reduction strategy presented in the poverty reduction strategy paper (PRSP) for 2003-05** that was adopted in December 2002. To this end, the government's program for 2004 aims at reinforcing the foundations for sustained growth and poverty reduction through fiscal consolidation, a deepening of structural reforms, and an increase in poverty-reducing outlays.

10. **Discussions for the sixth review under the PRGF arrangement focused on actions needed to reach the objectives of the authorities' economic program for 2004.** This program contemplates real GDP growth of 6 percent, driven by a bumper crop in the cotton sector and a sharp increase in the international price for cotton. The consumer inflation rate is targeted to be contained at 3 percent, in line with the regional convergence criteria. The external current account deficit is expected to narrow from 7.8 percent of GDP in 2003 to 7.1 percent in 2004, owing mainly to an expected improvement in the terms of trade. The staff concurred with the authorities that achievement of these objectives will

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<sup>6</sup> The new strategy would preserve the objective of a merit-based wage system.

<sup>7</sup> The authorities canceled the initial prequalification process in September 2003, as they considered that the sale through auction would not be competitive (only five enterprises would have qualified for bidding on the five ginning mills of SONAPRA, while no enterprise was authorized to acquire more than one mill). To remedy the situation, the investment bank decided, in accord with the World Bank, to shift one criterion—disqualifying enterprises with outstanding debt to the cotton sector in the WAEMU countries—from the prequalification stage to the final bidding, to enable potential bidders to clear their debts in the meantime.

require the continuation of a prudent monetary policy at the regional level, a fiscal stance that reflects the 2004 budget approved by parliament in December 2003, and a deepening of structural reforms.

#### **A. Fiscal Policy and Budget Reform**

11. **The 2004 budget adopted by the National Assembly reflects the PRSP priorities and was prepared with the support of all major donors**, in an effort to align their financial assistance to the government budgetary process.<sup>8</sup> It is underpinned by a medium-term expenditure framework (MTEF), updated with the joint assistance of the World Bank and the African Development Bank. The government's objective is to contain the overall fiscal deficit, on a commitment basis and excluding grants, at 5 percent of GDP, while increasing poverty-reducing expenditures. The resulting financing gap (1.8 percent of GDP) is covered by highly concessional budgetary loans from multilateral institutions and budgetary grants from the European Union and bilateral donors.<sup>9</sup>

12. Implementation of the contemplated **measures in the fiscal area would enable the government to meet its fiscal targets for 2004**. These measures focus on enhancing revenue mobilization, improving the execution of poverty-reducing outlays, containing nonpriority spending, and further strengthening public expenditure management.

13. **The revenue target envisaged in the 2004 budget (17 percent of GDP) is attainable**, as the authorities intend to further strengthen the tax and customs administrations.<sup>10</sup> The authorities have adopted new action plans for the tax and customs administrations, incorporating the recommendations of a Fund technical assistance mission that visited Cotonou during October 22-November 5, 2003. Regarding **customs administration**, the new action plan focuses on monitoring exemptions and exonerations, applying transaction values to all imports, fighting smuggling, fraud, and corruption—notably by expanding pre-shipment inspection, and collecting tax arrears. Regarding **tax administration**, efforts will continue to focus on (i) improving the taxpayer database;

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<sup>8</sup> The 2004 budget broadly reflects the more ambitious budget scenario of the PRSP—which commits higher expenditure to priority sectors—as concessional financing consistent with the objective of debt sustainability was secured.

<sup>9</sup> To cover the financing gap of CFAF 40 billion, the African Development Bank and the European Union, jointly with Denmark, Switzerland, and the Netherlands, have already approved budgetary assistance equivalent to CFAF 10 billion and CFAF 17 billion, respectively. The World Bank is expected to provide the remainder, under a Poverty Reduction Support Credit (PRSC) scheduled to be presented to the Board in March 2004.

<sup>10</sup> The revenue target is consistent with the revenue outcome in 2002 (16.9 percent of GDP). Furthermore, revenue collection during the last three quarters of 2003 exceeded the target by 1 percent.



(ii) collecting tax arrears; and (iii) strengthening the large taxpayer unit and tax audits. The authorities intend also to improve the collection of **nontax revenue**, particularly dividends and debt-service payments on external loans on-lent to public enterprises. In parallel, the authorities have started taking strong actions to enforce compliance with tax obligations. In particular, an action plan to recover arrears owed by the national oil distribution company, SONACOP, was adopted in early February 2004—a prior action for the conclusion of the review.<sup>11</sup>

14. **Spending in the budget for 2004 reflects the updated MTEF.** Primary expenditures, excluding externally financed investment, are to be contained at 17 percent of GDP (1 percentage point higher than in 2003). The allocations to social sectors are in line with the PRSP priorities. In particular, budgetary allocations for health and education have been increased by 15 percent and 25 percent, respectively, compared with 12 percent for total expenditures. The wage bill would amount to 5.1 percent of GDP (about the same ratio as in 2003). It reflects the financial impact of the 5 percent nominal wage increase granted in late 2003<sup>12</sup> and also provides for the financial impact of new recruitments in social sectors, in accordance with the MTEF. The authorities intend to step up the implementation of ongoing measures aimed at containing government spending on public utility services (especially telephones and electricity) within budgetary allocations, while strengthening the implementation of measures taken with World Bank support to improve the execution of poverty-reducing expenditures, including increased use of autonomous agencies in the implementation of projects and training for public servants in line ministries on budgetary procedures.

15. The authorities intend to **strengthen public expenditure management** in order to improve the monitoring of budget execution, streamline budget procedures, and enhance transparency and the tracking of poverty-reducing outlays, in line with the recommendations of the Fund technical assistance mission that visited Cotonou at end-August 2003.<sup>13</sup> Actions are being taken to (i) make SIGFIP fully operational by channeling through it all expenditure, including externally financed public investment and commitments generated by public

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<sup>11</sup> The action plan entails strong measures, starting with the seizure of the bank accounts of the company.

<sup>12</sup> As mentioned above, the government granted, in late 2003, a 5 percent wage increase to civil servants, effective from January 1, 2004 onwards, which was not contemplated in the budget. To compensate for this increase (amounting to 0.3 percent of GDP), the authorities reduced, in January 2004, budgetary appropriations for nonpriority expenditure by the same amount.

<sup>13</sup> The technical assistance mission noted that budget controls were weak, the quality of monthly treasury execution reports remained low, and the budget classification still complicated the tracking of pro-poor spending.

procurement contracts;<sup>14</sup> and (ii) further reduce the number of cash advance accounts (*comptes des régisseurs*), so as to limit exceptional budgetary procedures. To enhance the **tracking of poverty-reducing expenditures**, the authorities updated the listing of poverty-reducing outlays to make it more comprehensive, in conformity with the poverty-reducing expenditures identified in the PRSP. They have also established budgetary allocations for each category of these expenditures, in order to closely monitor their execution.

16. The authorities are completing an **audit on cross claims and cross debts between the public enterprises and the government**. Based on the results of the audit, an action plan to settle these claims and debts and prevent an accumulation of further arrears is expected to be adopted by end-June 2004. In the meantime, measures are being implemented to strengthen the physical control of the central government's use of services provided by public enterprises and to expedite the verification and settlement of invoices from public enterprises.

17. Regarding the **devolution process**, which started following the December 2002 municipal elections, the 2004 budget includes an allocation of CFAF 12 billion (0.5 percent of GDP) to local governments, compared with CFAF 3.6 billion (0.2 percent of GDP) in the 2003 budget. The budget also includes other appropriations that are administered centrally on behalf of local governments. In order to facilitate the transfer of the management of these appropriations, the authorities have completed studies on the modalities and costs involved, adopted a fiscal and accounting framework for local governments, and provided them with training in budget management. The authorities intend to finalize an action plan for the transfer of the management of budget appropriations and start implementing it during the first half of 2004.<sup>15</sup> The staff and the authorities concurred on the importance of strengthening local governments' capacity, so that this transfer does not weaken expenditure control.

18. The staff inquired about the status of the **large infrastructure projects** that are scheduled under the Government Action Program for 2001-06. These projects include a new port and a new airport, to be implemented under BOT (build-operate-transfer) contracts with private companies. The authorities reiterated their commitment to (i) conduct, as a first step, studies to evaluate the technical, economic, and financial viability of these projects and assess their macroeconomic and fiscal impact; and (ii) resort to international biddings for the

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<sup>14</sup> An inventory of outstanding commitments relating to procurement contracts, together with the corresponding payments schedules, was conducted in December 2003. In parallel, new procedures for the integration of government commitments generated by public procurement contracts into SIGFIP were adopted.

<sup>15</sup> The plan would indicate the expenditure mandates of local governments and the modalities of local budget reporting and control.

implementation of these projects. They also indicated that they will share all the relevant information with Fund and World Bank staffs.

19. The authorities stated that they were contemplating the adoption of a **supplementary budget for 2004** for the financing of the junior Pan-African soccer games, which Benin will host in 2005. A decision on the magnitude and financing of this project, which is now expected to be more modest than the CFAF 20 billion (1 percent of GDP) initially envisaged, has not yet been made.<sup>16</sup> The staff and the authorities agreed that (i) financing of the project should be in the form of grants and concessional loans; and (ii) agreement with major donors would be sought on the magnitude and financing of the project before a supplementary budget is adopted, so that the disbursement of external budgetary assistance for 2004 would not be jeopardized.

### **B. Regional Monetary Policy and the Financial Sector**

20. **Regional monetary policy will remain consistent with the fixed exchange rate regime and an increase in net foreign assets of the BCEAO.** For Benin, official net foreign assets are targeted to increase by CFAF 31.5 billion in 2004, with broad money increasing at the same rate as the nominal GDP. Net domestic assets of the banking system would rise by 4.3 percent in terms of beginning-of-period broad money, allowing credit to the nongovernment sector to increase by 10.5 percent on an annual basis.

21. Regarding the **soundness of the financial sector**, the authorities intend to continue to require that commercial banks comply with the regional prudential regulations, and to complete the divestiture of the government's shares in the Continental Bank. In the microfinance sector, the government will continue to support the rehabilitation of the largest microfinance institution (FECECAM) and intensify the supervision of the sector.

### **C. Other Structural Reforms**

22. **The authorities intend to pursue the structural reform program**, which is essential to raise growth and alleviate poverty, in accordance with the PRSP. The mission stressed the need to implement structural reforms through a timely and transparent process, and emphasized the opportunity offered by the government's majority in parliament to move forward with pending structural reforms, including, in particular, those related to the cotton sector, the divestiture program, and the civil service.

23. In the **cotton sector**, the privatization process for the public ginning company (SONAPRA), which resumed in December 2003, is expected to be completed by end-May 2004. Operators in the sector are assessing, with the support of the World Bank, the

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<sup>16</sup> The authorities are seeking concessional external financing; they indicated that they would try to adjust the project to the available financing.

functioning of the independent, privately managed institutions established to oversee seed cotton marketing and input distribution.

24. The **divestiture program** for the public utilities is to be implemented according to realistic timetables established in collaboration with the World Bank and through a transparent process. The bidding process for the privatization of the electricity company, which is supported by the World Bank, is expected to be launched in the second half of 2004, and completed in the first half of 2005. In the meantime, the authorities intend to continue to implement the action plan for the financial rehabilitation of the company, adopted in December 2002. For the telecommunications company, the decree establishing the regulatory body was adopted by the Council of Ministers in October 2003. The bidding process for the privatization is scheduled to be launched in the second half of 2004. Regarding the Port of Cotonou, the feasibility study for the involvement of the private sector in its management, including a new timetable for its implementation, is expected to be launched in the first half of 2004.

25. Regarding the **pension fund for the civil service (FNRB)**, the terms of reference for the actuarial study have been finalized, and the process of hiring a consultant to this end has started. The mission encouraged the authorities to complete the study promptly, so that the strategy to eliminate the medium-term financial deficit of the FNRB can be elaborated during 2004.

#### **D. Governance**

26. The authorities are implementing the national strategy to fight corruption adopted in July 2002. A first governance and anticorruption survey is being carried out and is expected to be completed during the first quarter of 2004. The government has also adopted and sent to parliament a new code of penal procedures, which includes articles dealing with corruption in the public service and illicit enrichment.<sup>17</sup>

#### **IV. POVERTY REDUCTION STRATEGY**

27. The authorities have begun addressing the shortcomings of the PRSP identified in the joint staff assessment (JSA). To improve the poverty diagnosis, a national household survey on living conditions has been conducted, and a poverty and social impact analysis (PSIA) of cotton sector reforms is being finalized, with the assistance of the World Bank.<sup>18</sup> In addition, the mechanism for monitoring and evaluating the PRSP implementation is being strengthened, with the assistance of bilateral donors. In January 2004, the authorities completed the first progress report on the implementation of the PRSP during the first half of

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<sup>17</sup> In December 2003, Benin signed the United Nations Convention Against Corruption.

<sup>18</sup> A draft report of the poverty and social impact analysis of Benin's cotton sector reform is being reviewed by World Bank staff.

2003.<sup>19</sup> The first annual assessment of the poverty reduction strategy, covering the whole of 2003, is scheduled to be finalized by end-March 2004. Comprehensive audits and impact assessments have already been completed for the 2000 and 2001 HIPC expenditures. According to these audits, funds reached the intended beneficiaries (mostly schools and health centers) and were used for the intended purposes. The audit of the 2002 HIPC expenditures has been launched and is expected to be completed by end-June 2004. The staff encouraged the authorities to prepare a follow-up action plan based on the recommendations formulated in the audits already completed.

## V. EXTERNAL SECTOR OUTLOOK AND CAPACITY TO REPAY THE FUND

28. The medium-term balance of payments projections presented at the time of the fifth review of the program have been updated (Tables 6 and 7), based on the most recent projections of the World Economic Outlook and domestic developments. As a result of the rise in cotton production and higher international cotton prices in 2004, exports of goods are expected to increase by about 1 percentage point of GDP. The current account deficit (excluding program grants) is projected to decline to 7.1 percent of GDP from 7.8 percent of GDP in 2003.

29. Over the period 2004-06, debt service to the Fund, expressed in percent of exports of goods and services, would decrease from 2.4 percent to 1.4 percent (Table 9); outstanding Fund credit would decrease from 10.1 percent of exports of goods and services to 6.5 percent over the same period. Benin has a very good record of servicing its debt obligations, and, in view of its satisfactory balance of payments and fiscal positions, it is expected to discharge its future obligations to the Fund in a timely manner.

30. In March 2003, Benin reached its completion point in the context of the enhanced HIPC Initiative. It also reached agreement with its multilateral and Paris Club creditors on the provision of debt relief in the context of the HIPC Initiative; in addition, the authorities have requested bilateral non-Paris Club creditors to provide comparable relief (Box 3). On this basis, the conclusions of the debt sustainability analysis (DSA) of March 2003 remain valid (Box 4).

31. The authorities have agreed to pursue a prudent borrowing policy, with a view to maintaining external debt sustainability. In this regard, the government established a National Debt Committee, chaired by the Minister of Finance and Economy, which became operational in December 2003. The committee monitors Benin's external debt situation, reviews proposals for new external loans, and makes recommendations for alternative financing sources in light of the government's objective of maintaining debt sustainability.

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<sup>19</sup> The report highlights the need to intensify efforts to implement the poverty reduction strategy and improve the PRSP.

## VI. MONITORING INDICATORS

32. To help achieve the PRSP and budgetary objectives for 2004, the authorities have complied with the prior actions for the completion of the review (Table 14), and have established indicative quarterly targets for 2004 to monitor economic performance beyond the program's expiration at end-March 2004 (Table 13).

## VII. ASSESSMENT OF PROGRAM IMPLEMENTATION SINCE 2000

33. **Overall program implementation has been satisfactory since the approval of the PRGF arrangement in July 2000.** Macroeconomic performance has been strong, despite large fluctuations in the world price for cotton. Benin has continued to pursue stabilizing macroeconomic policies under the PRGF arrangement. The primary fiscal deficit has remained well below 4 percent of GDP during this period, and annual average consumer price inflation decelerated steadily from 4.2 percent in 2000 to 1.5 percent in 2003. An effective budget management information system (SIGFIP) was initiated, and its coverage was gradually expanded over the years; a performance-based budget has been adopted; and the tracking of poverty-related spending has been introduced. However, priority spending in the social sectors has lagged behind targets during most of the period. On the revenue side, the authorities have started implementing reform plans for the internal tax and customs administrations. Strong commitment to the program has helped Benin make progress toward regional convergence and meet all primary convergence criteria. These policies have helped to promote the appropriate environment for economic growth, which has averaged 5.6 percent annually since 2000.

34. **Progress in the implementation of structural reforms has been uneven.** In the cotton sector, the reform process, which began in the early 1990s with the support of the World Bank and bilateral donors, has proceeded satisfactorily. In particular, an independent, privately managed agency was created by sector participants in 2000 to take over the primary marketing of inputs and seed cotton from the public sector. However, the privatization of large public enterprises—critical to improve the quality of utility services and raise productivity—has incurred protracted delays, and the civil service reform has stalled, as the National Assembly has not passed the necessary legislation regarding a new compensation system for the civil service.

35. **Looking ahead, intensified domestic efforts and donor support will be required to achieve the objectives of the PRSP.** With an annual population growth of about 3 percent, the steady economic growth achieved in the 1990s has not been sufficient to make substantial progress in poverty reduction; also, the economy has remained vulnerable to external shocks because of its heavy reliance on cotton production and exports. Meeting these challenges will require that productivity and competitiveness be strengthened by promoting the development of the private sector, developing human resources and improving access to basic social services, and enhancing physical infrastructure. It will, therefore, be essential for the authorities to accelerate the implementation of the structural reform program, while pursuing fiscal consolidation and improving the execution of poverty-

reducing expenditures. In parallel, improved governance and transparency will be needed, notably in the judiciary and the customs administration, to ameliorate the investment climate.

36. Future Fund engagement will be discussed with the authorities during the next Article IV consultation mission, scheduled for April 2004. In the interim, an ex post assessment of the three consecutive arrangements under the Enhanced Structural Adjustment Facility (ESAF) and PRGF since 1993 will be prepared to review progress during the period, analyze the economic problems facing the country, and present a strategy for future Fund engagement.

#### VIII. STAFF APPRAISAL

37. **Economic and financial performance under the PRGF-supported program was broadly satisfactory.** Benin continued to display strong economic growth with low inflation in 2003. All the quantitative performance criteria for end-September were met. Structural benchmarks were also observed—although with some delay for one benchmark. Progress in structural reforms, however, was mixed, with privatization in the cotton sector experiencing new delays.

38. **The 2004 budget, which was prepared with the support of all major donors, reflects the PRSP priorities.** Achieving the fiscal targets will require a strong implementation of the action plans aimed at improving the performance of the tax and customs administrations, as well as a continuation of the efforts to rein in nonpriority current spending and improve the level of execution of priority expenditure. In this respect, the staff regrets that the new wage increase was delinked from the civil service reform strategy, and urges the authorities to resist any further wage concessions in 2004. In parallel, the strengthening of the expenditure management system will enhance transparency and the tracking of poverty-reducing outlays.

39. The authorities indicated that they were contemplating the adoption of a **supplementary budget for 2004** for the financing of the junior Pan-African soccer games, which Benin will host in 2005. Such a supplementary budget should be adopted only after agreement has been reached with major donors on the magnitude and financing of the project, in order not to jeopardize the disbursement of external budgetary assistance for 2004.

40. **Implementation of the structural reform agenda through a timely and transparent process is of critical importance for achieving the objectives of the PRSP.** The ongoing privatization of the SONAPRA and the state-owned bank should be completed without further delays, and the timetable established for the divestiture of public utilities should be adhered to strictly. It is also important that a new civil service reform strategy be defined and adopted rapidly.

41. **To strengthen the financial sector,** the authorities should continue to require that all banks comply with the Regional Banking Commission's prudential ratios, and to intensify its supervision of the microfinance sector, while supporting the rehabilitation of the major cooperative and mutual credit institution (FECECAM).

42. **To keep the external debt on a sustainable path, a prudent debt-management policy will need to be pursued**, with the support of the new debt committee.

43. The authorities should continue to address the shortcomings of the PRSP and complete the first annual assessment of the implementation of their poverty reduction strategy by end-March 2004.

44. In view of the overall satisfactory performance under the program and the actions taken to achieve the objectives for 2004, **the staff recommends that the sixth review under the three-year PRGF arrangement be concluded.**



**Box 1. Benin: Commercial Banks' Compliance with Prudential Norms, 2001-03**

Prudential Ratio	Norm	Number of Banks out of Total Observing the Norm		
		Dec. 2001	Dec. 2002	Oct. 2003
Capital	> CFAF 1 billion	6/6	6/6	7/7
Effective capital	> CFAF 1 billion	4/6	6/6	6/7
Capital adequacy ratio	> 8 percent	3/6	4/6	5/7
Liquidity coefficient	> 75 percent	4/6	4/6	5/7
Coverage of medium-term liabilities by stable resources	> 75 percent	2/6	2/6	5/7
Connected lending / effective capital	< 20 percent	2/6	5/6	5/7
Risk concentration	Total: < 8 times effective capital Individual: < 75 percent of effective capital	3/6	2/6	3/7
Memorandum item:				
Nonperforming loans (percent) 1/		4.3	6.3	5.5 2/

Source: BCEAO.

1/ As a ratio of total loan portfolio.

2/ September 2003.

**Box 2. Benin: Compliance with WAEMU Convergence Criteria, 1999-2003**

(In percent, unless otherwise indicated)

	Convergence criterion	1999	2000	2001	2002	2003 Est.
<b>Primary criteria</b>						
Basic fiscal balance/GDP 1/	$\geq 0.0$	2.8	1.9	0.4	0.1	0.0
Basic fiscal balance/GDP 2/	$\geq 0.0$	2.8	2.2	1.4	1.0	1.0
Inflation (annual average)	$\leq 3.0$	0.4	4.2	4.0	2.4	1.5
Total debt/GDP 3/	$\leq 70.0$	56.6	59.6	59.5	50.7	39.0
Nonaccumulation of domestic arrears 4/	$\leq 0.0$	-11.3	-15.8	0.0	0.0	0.0
Nonaccumulation of external arrears 4/	$\leq 0.0$	-13.3	-14.8	0.0	0.0	0.0
<b>Secondary criteria</b>						
Wages/tax revenue	$\leq 35.0$	33.0	32.20	32.6	31.9	33.6
Domestically financed investment/tax revenue	$\geq 20.0$	13.9	15.0	22.4	19.3	18.9
Current account deficit, excluding program grants/GDP	$\leq 5.0$	8.7	8.1	7.9	9.2	7.8
Tax revenue/GDP	$\geq 17.0$	13.7	14.6	14.2	15.0	15.1

Sources: Beninese authorities; and staff estimates.

1/ The basic fiscal balance is defined as total revenue minus total expenditure, excluding foreign-financed investment.

2/ Basic fiscal balance, excluding the use of enhanced HIPC Initiative resources.

3/ Includes domestic and external debt.

4/ In billions of CFA francs.

### **Box 3. Benin: External Debt and the Paris Club Rescheduling**

After reaching the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in March 2003,<sup>1</sup> the government of Benin concluded an agreement with Paris Club creditors, in April 2003, on the provision of completion point assistance. The participating creditors were the governments of France, Germany, Italy, the Netherlands, Norway, the Russian Federation, and United Kingdom. The meeting was attended by representatives of Belgium, Canada, Japan, and USA, who participated as observers. As of March 1, 2003, the stock of debt due to Paris Club creditors was estimated at US\$159 million in end-1998 NPV terms, of which US\$108 million constituted pre-cutoff-date non-Official Development Assistance (non-ODA) and US\$51 million post-cutoff-date debt.

To deliver the Paris Club's share in completion point assistance to Benin, creditors decided to cancel US\$48 million of previously rescheduled non-ODA debt (in NPV terms). The effort on top of Naples terms was achieved by some countries, through a cancellation of 42 percent of pre-cutoff-date non-ODA debt. This came on top of the US\$12 million assistance delivered in the form of interim assistance. The agreement includes a clause committing the government of Benin not to accord any category of creditors a treatment more favorable than that accorded to Paris Club creditors.

As of end-January 2004, Benin had concluded bilateral debt relief agreements with four Paris Club members: Germany, the Netherlands, Norway, and the Russian Federation. Three of these creditors (Germany, the Netherlands, and Norway) agreed to cancel, outside the framework of the Paris Club, 100 percent of the remaining outstanding debt. Negotiations with the other Paris Club creditors (France, Italy, and the United Kingdom) are expected to be completed before end-March 2004.

The government has requested all its multilateral and bilateral non-Paris Club creditors to provide debt relief consistent with the HIPC Initiative. Several multilateral institutions have started providing the debt relief, including the IMF, the African Development Bank, the World Bank, the West Africa Development Bank, and the Arab Bank for Economic Development in Africa—creditors representing about 75 percent of nominal debt owed by Benin at-end 2001. Negotiations are ongoing with the bilateral non-Paris Club creditors and remaining multilateral creditors.

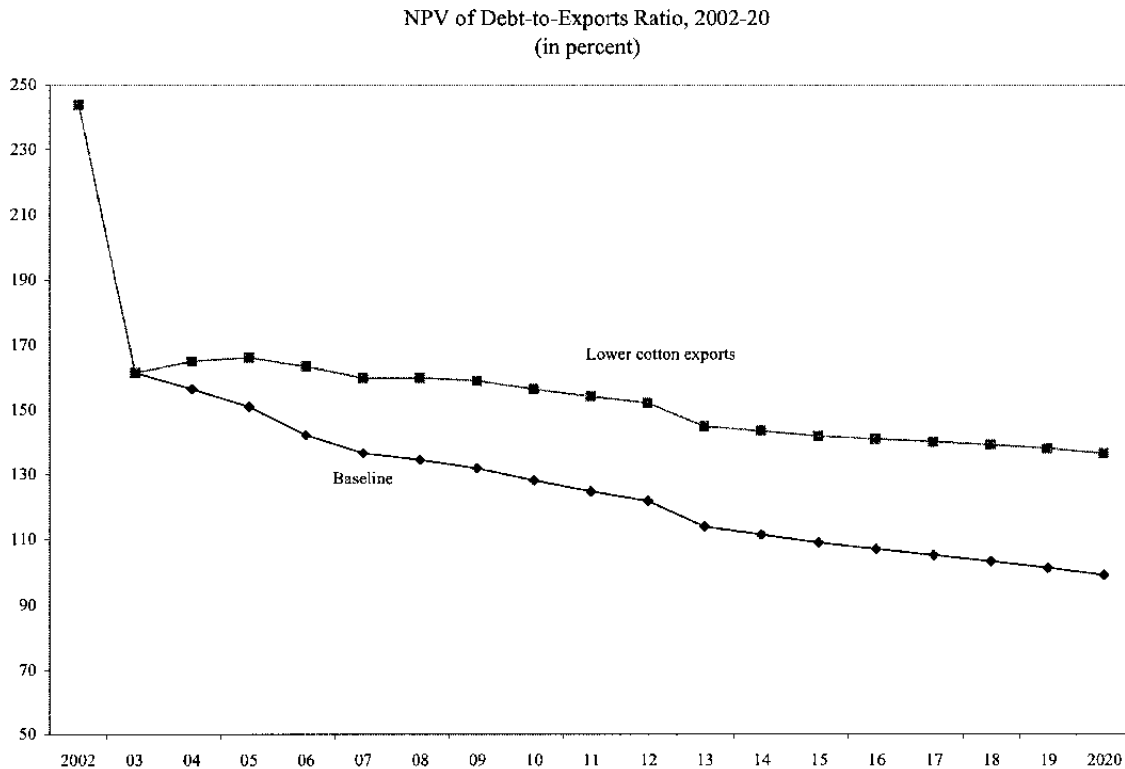
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1/ As indicated in the completion point document ("Benin—Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document," IMF Country Report No. 03/89, 2/25/03), Benin's total outstanding debt at end-2001 was estimated at about US\$1.37 billion in nominal terms (about 59 percent of 2001 GDP) and US\$857 million in net present value (NPV) terms. Approximately 82 percent of the debt in nominal terms was owed to multilateral creditors, 13 percent to Paris Club creditors, and 5 percent to non-Paris Club bilateral creditors. The only outstanding commercial debt had been settled through a buyback operation on terms comparable to those obtained from the Paris Club.

### Box 4. Benin: External Debt Sustainability

The updated debt sustainability analysis (DSA) confirms the conclusions of the DSA done in 2003<sup>1</sup> that, under conservative assumptions,<sup>2</sup> Benin can maintain external debt sustainability after the debt reduction provided under the enhanced HIPC initiative and the additional bilateral assistance by the Paris Club beyond the HIPC Initiative. Benin's debt-to-exports ratio would decline from 161 percent at end-2003 to below 150 percent from 2006 onward.

Benin's strong reliance on cotton exports constitutes a major risk to this outlook. The sensitivity analysis shows that a 20 percent drop in cotton export revenues<sup>3</sup> relative to the baseline scenario would postpone Benin's descent below the 150 percent threshold to 2013, compared with 2006 in the baseline (see figure below).

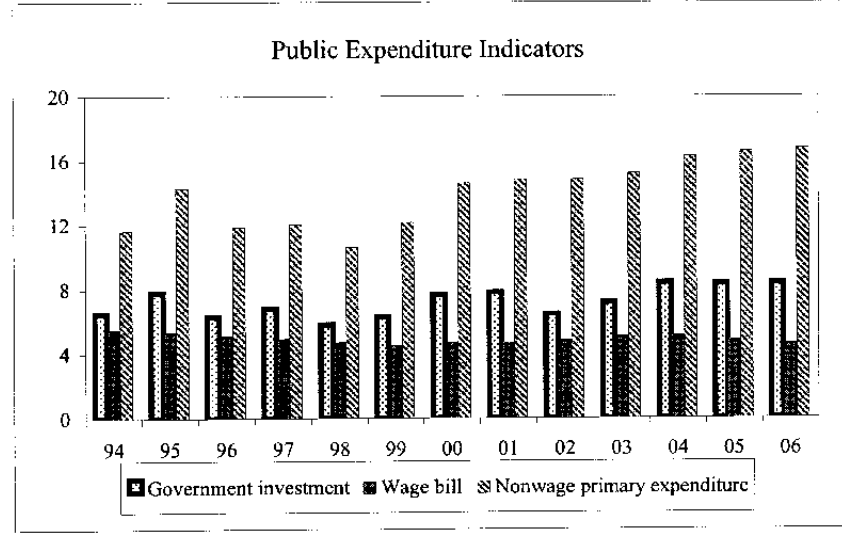
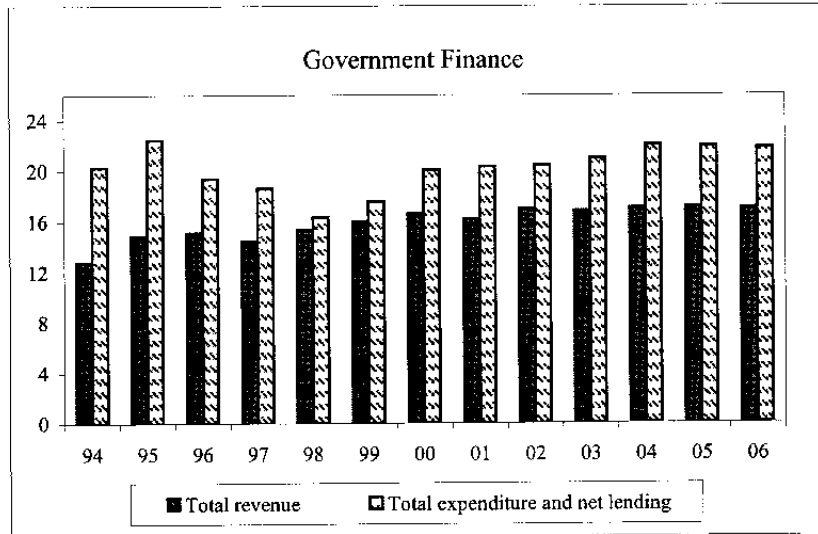
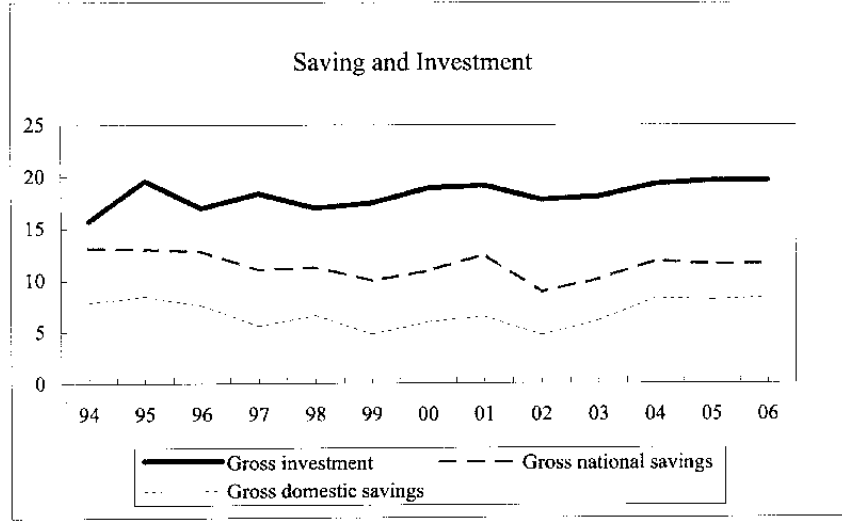
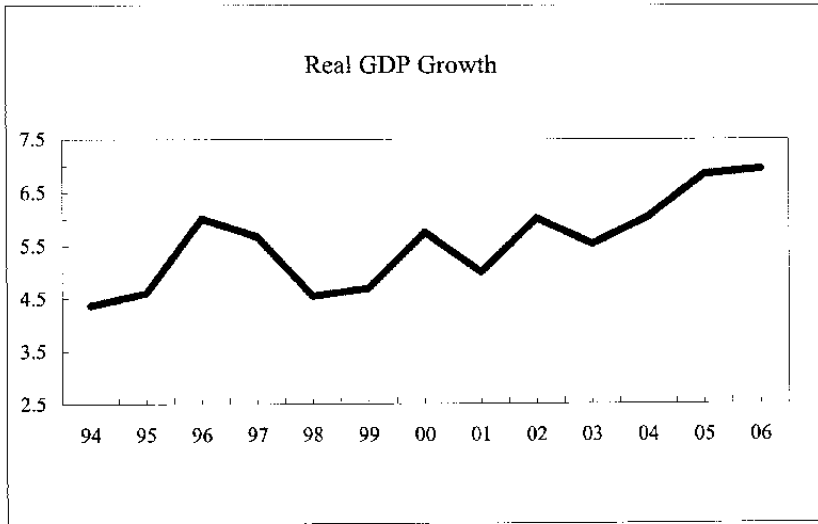


1/ See "Benin—Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document" (IMF Country Report No. 03/89; 2/25/03).

2/ The main assumptions are that (i) the real GDP growth rate will average 5 percent beyond 2006; (ii) exports of goods and services will remain at about 15 percent of GDP; and (iii) new external borrowing will stay above the historically high levels recorded in 1999-2002, growing by 3 percent on average per year. These assumptions are in line with those underlying the DSA at the time of the completion point.

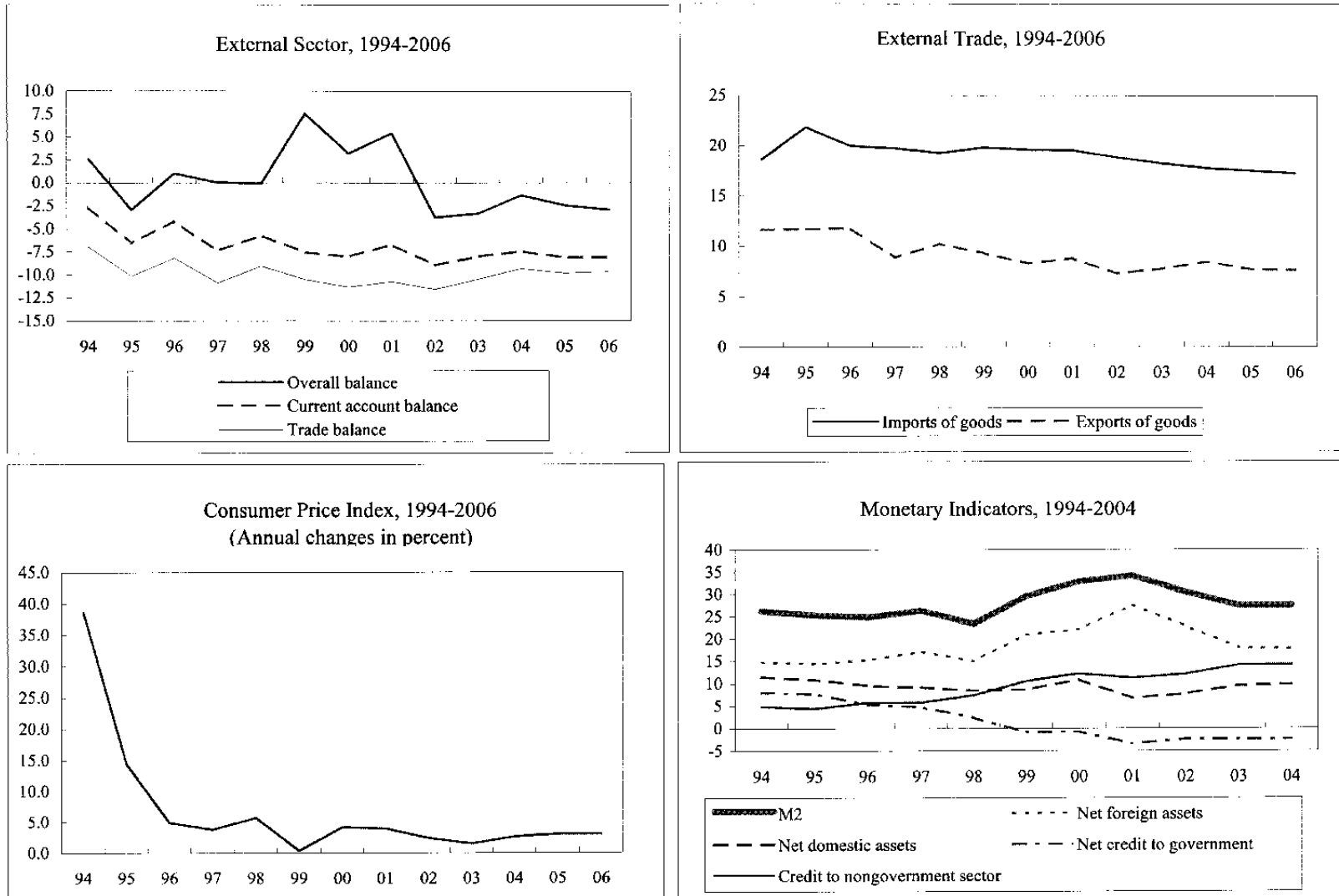
3/ In this scenario, exports of goods and nonfactor services remain at about 14 percent of GDP throughout the projection horizon, and the impact on the balance of payments is assumed to be offset through additional borrowing, with an average grant element of 62 percent, by the central government to cover the financing gap.

Figure 1. Benin: Selected Economic and Financial Indicators, 1994-2006 1/  
(In percent of GDP, unless otherwise indicated)



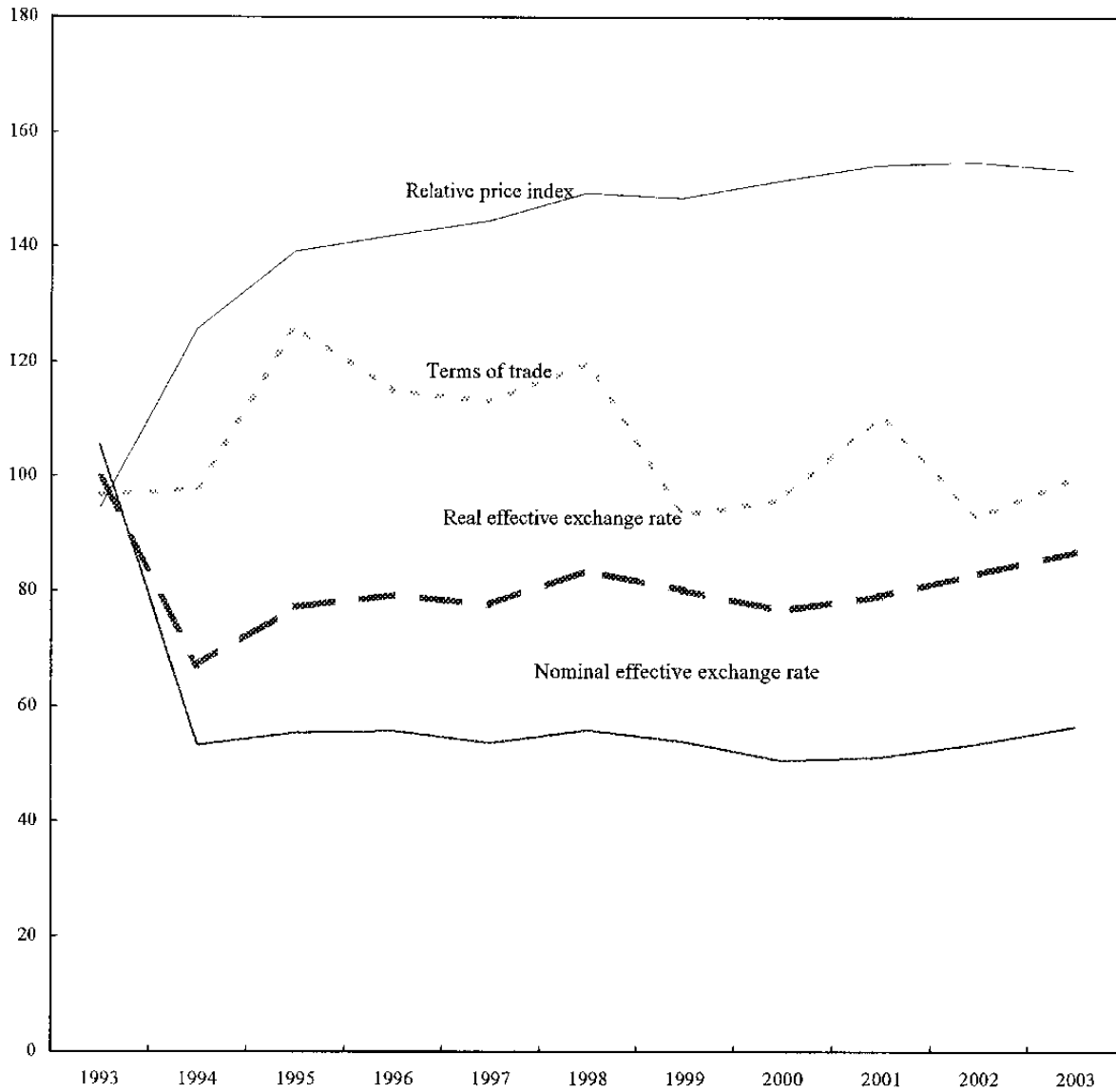
Sources: Beninese authorities; and staff estimates and projections.  
1/ 2004-06 data are projections.

Figure 2. Benin: Selected External and Monetary Indicators 1/  
(In percent of GDP, unless otherwise indicated)



Sources: Beninese authorities; and staff estimates and projections.  
1/ 2004-06 data are projections.

Figure 3. Benin: Effective Exchange Rates and Terms of Trade, January 1993-October 2003  
(Index 1990 = 100)



Sources: IMF, Information Notice System (INS); and staff estimates.

Table 1. Benin: Fund Position During 2004-06

	2004		2005		2006	
	Jan.- June	July- Dec.	Jan.- June	July- Dec.	Jan.- June	July- Dec.
	(In millions of SDRs)					
Transactions under tranche policies (net)	0.00	0.00	0.00	0.00	0.00	0.00
Purchases	0.00	0.00	0.00	0.00	0.00	0.00
Repurchases	0.00	0.00	0.00	0.00	0.00	0.00
Structural Adjustment Facility (SAF)	0.00	0.00	0.00	0.00	0.00	0.00
Loans	0.00	0.00	0.00	0.00	0.00	0.00
Repayments	0.00	0.00	0.00	0.00	0.00	0.00
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF)	-3.37	-4.17	-3.61	-2.70	-3.37	-2.86
Loans	1.35	0.00	0.00	0.00	0.00	0.00
Repayments 1/	-4.72	-4.17	-3.61	-2.70	-3.37	-2.86
Repayments (principal)	-4.53	-3.99	-3.44	-2.54	-3.22	-2.71
Repayments (interest)	-0.19	-0.18	-0.17	-0.16	-0.15	-0.15
Total Fund credit outstanding, end of period	46.02	42.04	38.59	36.06	32.84	30.13
Tranche policies	0.00	0.00	0.00	0.00	0.00	0.00
SAF	0.00	0.00	0.00	0.00	0.00	0.00
ESAF/PRGF	46.02	42.04	38.59	36.06	32.84	30.13
	(In percent of quota)					
Total Fund credit outstanding, end of period	74.35	67.91	62.35	58.25	53.05	48.67
Tranche policies	0.00	0.00	0.00	0.00	0.00	0.00
SAF	0.00	0.00	0.00	0.00	0.00	0.00
ESAF/PRGF	74.35	67.91	62.35	58.25	53.05	48.67

Source: IMF, Treasurer's Department.

1/ Before enhanced HIPC Initiative debt relief.



Table 2. Benin: Main Economic Indicators, 2000-06

	2000	2001	2002	2003		2004	2005	2006
				Prog. 1/	Est.			
(Annual changes in percent, unless otherwise indicated)								
National income								
GDP at current prices	9.2	8.3	8.0	8.2	8.3	9.9	10.0	10.1
GDP at constant prices	5.8	5.0	6.0	5.6	5.5	6.0	6.8	6.9
GDP deflator	3.3	3.1	2.0	2.5	2.6	3.6	3.0	3.0
Consumer price index (average)	4.2	4.0	2.4	2.5	1.5	2.6	3.0	3.0
Consumer price index (end of period)	9.8	2.3	1.2	2.5	0.8	3.0	3.0	3.0
Central government finance								
Revenue	13.3	5.5	13.2	8.8	7.3	11.4	10.2	9.7
Expenditure and net lending	25.0	9.5	8.5	14.8	11.3	15.4	9.5	9.4
Money and credit								
Net domestic assets 2/	10.5	-10.9	4.6	5.2	8.8	4.3	...	...
Domestic credit 2/	9.4	-9.2	7.6	5.2	9.9	4.3	...	...
Net claims on central government 2/	0.3	-9.1	2.3	-0.3	-0.5	-1.1	...	...
Credit to the nongovernment sector	25.5	-0.3	16.1	14.0	26.5	10.5	...	...
Broad money	21.2	12.7	-3.8	8.2	-2.5	10.0	...	...
Velocity (GDP relative to average M2)	3.3	3.1	3.2	3.4	3.6	3.8	...	...
External sector (in terms of CFA francs)								
Exports, f.o.b.	-3.0	15.3	-11.0	12.0	15.4	20.2	-0.1	9.1
Imports, f.o.b.	8.1	8.0	4.1	7.6	4.7	7.2	8.4	8.6
Export volume	-11.0	-2.8	9.3	-11.0	6.5	7.3	5.3	7.1
Import volume	2.0	5.0	7.3	6.0	3.9	7.9	7.0	7.2
Terms of trade	2.9	15.3	-16.0	24.0	7.5	12.7	-6.3	0.6
Nominal effective exchange rate (- deprec.)	-6.1	1.3	4.4	...	...	...	...	...
Real effective exchange rate (- deprec.)	-4.2	3.2	4.8	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)								
Basic ratios								
Gross investment	18.9	19.2	17.8	18.9	18.1	19.3	19.7	19.7
Government investment	7.6	7.8	6.4	7.9	7.1	8.3	8.3	8.3
Private sector investment	11.3	11.4	11.4	11.0	11.0	11.0	11.4	11.4
Gross domestic saving	6.0	6.5	4.7	7.6	6.1	8.3	8.1	8.3
Government saving	4.9	4.4	3.7	4.0	3.5	3.7	3.7	3.8
Nongovernment saving	1.1	2.1	1.0	3.5	2.6	4.6	4.4	4.5
Gross national saving 3/	10.9	12.5	8.9	11.4	10.3	12.2	11.8	11.8
Central government finance								
Revenue	16.6	16.2	16.9	17.0	16.8	17.0	17.1	17.0
Expenditure and net lending	20.1	20.3	20.4	21.6	21.0	22.0	21.9	21.8
Primary balance 4/	-2.6	-3.3	-2.6	-3.8	-3.4	-4.3	-4.3	-4.2
Overall fiscal deficit (payment order basis) 5/	-3.5	-4.2	-3.5	-4.6	-4.2	-5.0	-4.9	-4.8
Overall fiscal deficit (cash basis) 5/	-5.5	-4.1	-4.6	-4.7	-4.5	-5.4	-4.9	-4.8
Debt service 6/ 7/	14.4	9.2	8.0	7.0	7.6	5.4	5.3	5.3
External sector								
Current account balance (- deficit) 3/	-8.0	-6.7	-9.0	-7.5	-7.8	-7.1	-7.9	-7.9
Overall balance of payments (- deficit)	3.2	5.4	-3.8	-0.2	-2.5	-0.4	-1.7	-2.2
Debt-service ratio (before debt relief)	18.1	15.9	16.8	15.5	16.0	12.9	12.5	12.0
Debt-service ratio (after debt relief) 7/	15.7	9.9	9.9	8.2	9.1	6.3	6.7	6.7
Net present value of debt-to-exports ratio (after debt relief) 8/	203.9	231.4	243.8	160.6	161.3	156.8	151.8	141.5
Debt-to-GDP ratio (after debt relief)	58.3	58.5	50.3	38.6	38.6	37.2	35.3	33.8
Gross reserves (in months of imports of goods and services)	8.6	10.8	8.8	...	7.4	7.5	...	...
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,033.5	2,033.5	2,234.1	2,458.1	2,707.3
CFA francs per U.S. dollar (period average)	712.0	728.8	694.8	577.0	580.1	...	...	...
Population (midyear, in millions)	6.3	6.5	6.7	6.8	7.0	7.2	7.4	7.6

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in IMF Country Report No. 03/322 (08/27/03).

2/ In percent of broad money at the beginning of the period.

3/ Including current official grants but excluding project grants.

4/ Total revenue minus all expenditure, excluding interest.

5/ Before all official grants.

6/ Scheduled debt service in percent of fiscal revenue, including IMF debt and excluding debt to be paid by HIPC Initiative assistance.

7/ For 2000-02, debt service after debt relief is the difference between the amount of debt service due and the amount of debt relief effectively received.

8/ Net present value of total debt beyond enhanced HIPC Initiative assistance, in percent of a backward-looking three-year average of exports of goods and nonfactor services.

Table 3. Benin: Macroeconomic Indicators, 2000-06  
(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003		2004	2005	2006
				Prog. 1/	Est.			
Resource gap (1)	12.9	12.7	13.1	11.4	12.0	11.1	10.7	11.4
Exports of goods and nonfactor services	15.2	15.0	13.8	14.5	14.0	14.4	13.5	13.3
Imports of goods and nonfactor services	28.1	27.7	26.9	25.9	26.0	25.5	25.1	24.7
Total gross investment (2)	18.9	19.2	17.8	18.9	18.1	19.3	19.7	19.7
Central government investment (A)	7.6	7.8	6.4	7.9	7.1	8.3	8.3	8.3
Private sector investment (B)	11.3	11.4	11.4	11.0	11.0	11.0	11.4	11.4
Domestic saving (3) = (2) - (1)	6.0	6.5	4.7	7.6	6.1	8.3	8.1	8.3
National saving (6) = (3) + (4) + (5)	10.9	12.5	8.9	11.4	10.3	12.2	11.8	11.8
Net factor income (4)	-0.5	-0.9	-1.0	-0.9	-0.7	-0.5	-0.5	-0.5
Unrequited transfers (5)	5.5	6.9	5.1	4.7	4.9	4.4	4.2	4.0
Government national saving (7)	5.9	7.1	5.1	5.4	5.1	5.2	5.2	5.3
Budget deficit	-3.5	-4.2	-3.5	-4.6	-4.2	-5.0	-4.9	-4.8
Government investment	7.6	7.8	6.4	7.9	7.1	8.3	8.3	8.3
Public transfers (current)	1.8	3.5	2.2	2.1	2.1	1.9	1.8	1.8
Government domestic saving (8)	4.9	4.4	3.7	4.0	3.5	3.7	3.7	3.8
Public transfers (current)	1.8	3.5	2.2	2.1	2.1	1.9	1.8	1.8
Net factor income	-0.8	-0.8	-0.8	-0.7	-0.5	-0.4	-0.3	-0.3
Nongovernment national saving (9) = (6) - (7)	5.0	5.3	3.7	6.0	5.2	7.0	6.6	6.5
Nongovernment domestic saving (10) = (3) - (8)	1.1	2.1	1.0	3.5	2.6	4.6	4.4	4.5
Saving-investment balance	-8.0	-6.7	-9.0	-7.5	-7.8	-7.1	-7.9	-7.9
Nongov. sector saving-investment balance (9) - (B)	-6.3	-6.1	-7.7	-5.0	-5.8	-4.0	-4.8	-4.9
Government saving-investment balance (7) - (A)	-1.8	-0.6	-1.3	-2.5	-2.1	-3.1	-3.1	-3.0
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,033.5	2,033.5	2,234.1	2,458.1	2,707.3
Nominal GNP (in billions of CFA francs)	1,596.7	1,723.0	1,860.4	2,015.6	2,015.2	2,215.7	2,440.4	2,689.3

Sources: Beninese authorities (Institute National de la Statistique et de l'Administration Economique (INSAE)); and staff estimates and projections.

1/ As indicated in IMF Country Report (08/27/03).

Table 4. Benin: Consolidated Government Operations, 2000-06

	2000	2001	2002	2003				2004	2005	2006
				Sep. Prog.	Est.	Prog.	Est.			
(in billions of CFA francs)										
Total revenue	266.2	281.0	318.2	253.9	245.8	346.0	341.5	380.4	419.3	460.0
Tax revenue	234.1	247.1	282.5	230.9	221.4	312.4	306.4	341.8	379.2	415.0
Tax on international trade 1/	126.7	133.2	145.9	126.3	112.0	170.3	159.2	179.5	204.2	227.3
Direct and indirect taxes	107.4	113.9	136.6	104.6	109.4	142.1	147.2	162.4	175.0	187.7
Nontax revenue	32.1	33.9	35.7	23.0	24.3	33.6	35.1	38.6	40.1	45.0
Total expenditure	322.5	353.2	383.2	322.7	303.0	440.0	426.6	492.2	538.7	589.2
Of which: primary expenditures	220.7	257.8	298.3	242.9	241.6	326.5	326.8	381.5	423.7	465.1
Wages	74.8	80.7	90.1	76.9	79.1	96.7	103.0	114.1	118.2	122.6
Pensions and scholarships	19.3	20.5	21.5	17.8	17.5	24.4	24.4	26.1	27.9	28.8
Current transfers	26.8	41.5	73.7	39.6	52.0	54.0	60.9	79.0	91.3	101.7
Of which: subsidy to the cotton sector	0.0	0.0	18.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenditure	64.7	59.6	58.4	56.0	55.0	76.3	80.4	72.2	83.1	96.8
Investment	122.5	135.3	120.7	120.0	93.1	171.4	144.7	186.1	203.4	224.5
Budgetary contribution	35.0	55.4	54.5	52.6	38.0	75.1	58.0	90.1	103.2	115.2
Financed from abroad	87.4	79.8	66.2	67.4	55.1	96.3	86.7	96.0	100.2	109.3
Net lending (minus = reimbursement)	0.3	0.4	3.2	0.0	-1.9	0.0	-2.4	-0.9	0.0	0.0
Primary balance (narrow definition) 2/	45.5	23.2	19.9	11.0	4.2	19.5	14.7	-1.1	-4.4	0.0
Primary balance	-42.2	-57.0	-49.5	-56.4	-49.0	-76.8	-69.6	-96.3	-104.6	-114.4
Interest	14.1	15.2	15.5	12.4	8.2	17.2	15.5	15.5	14.8	14.8
Internal debt	1.6	1.8	1.2	1.8	0.7	2.6	0.9	0.8	0.7	0.7
External debt	12.4	13.5	14.3	10.6	7.5	14.6	14.6	14.7	14.1	14.1
Overall balance (payment order basis)	-56.3	-72.3	-65.1	-68.8	-57.2	-94.0	-85.1	-111.8	-119.4	-129.2
Change in arrears	-30.6	-6.7	-6.7	-0.9	-3.1	-1.2	-5.5	-2.0	0.0	0.0
External debt (principal and interest payments)	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt 3/	-15.8	-6.7	-6.7	-0.9	-3.1	-1.2	-5.5	-2.0	0.0	0.0
Float	-0.6	8.4	-13.8	0.0	2.6	0.0	-0.3	-7.0	0.0	0.0
Overall balance (cash basis)	-87.5	-70.6	-85.5	-69.7	-57.8	-95.2	-90.9	-120.8	-119.4	-129.2
Financing	87.5	70.6	85.5	56.5	57.7	73.6	90.8	80.8	77.0	72.7
Domestic financing	13.9	-49.0	11.4	-7.3	-4.3	-13.3	-6.0	-16.6	0.0	-21.1
Bank financing	1.2	-47.8	13.7	1.6	-3.1	-1.8	-3.1	-6.1	-4.9	-4.6
Net use of Fund resources	-2.5	-3.1	-6.8	-3.4	-2.0	-4.8	-4.7	-6.1	-4.9	-4.6
Disbursements	6.3	7.5	3.6	3.6	5.5	5.6	5.7	1.0	0.0	0.0
Repayments	-8.9	-10.5	-10.4	-7.0	-7.5	-10.4	-10.4	-7.1	-4.9	-4.6
Other	3.8	-44.7	20.4	5.0	-1.1	3.1	1.6	0.0	0.0	0.0
Nonbank financing	12.6	-1.3	-2.3	-8.8	-1.2	-11.5	-2.9	-10.5	-9.1	-12.3
Privatization	0.9	0.0	0.0	0.0	3.8	0.0	3.8	0.0	0.0	0.0
Restructuring	1.4	-1.3	-1.7	-7.5	-2.6	-10.0	-4.3	-8.0	-9.1	-10.3
Other	10.3	0.0	-0.6	-1.3	-2.4	-1.5	-2.4	-2.5	0.0	-2.0
External financing	73.7	119.6	74.2	63.8	62.0	86.8	96.8	97.4	91.0	89.6
Project financing	74.4	79.8	71.5	67.5	55.1	96.3	86.7	96.0	94.3	91.7
Grants	25.3	24.5	16.4	32.7	26.7	46.7	42.6	48.6	54.2	54.5
Loans	49.1	55.3	55.1	34.7	28.4	49.6	44.1	37.8	40.1	37.2
Amortization due	-22.9	-17.5	-18.8	-15.0	-12.8	-20.7	-20.7	-19.8	-22.4	-21.2
Program aid	1.7	41.7	3.7	11.3	8.2	11.3	11.3	0.0	0.0	0.0
Grants	1.7	21.5	3.7	4.7	1.8	4.7	4.7	0.0	0.0	0.0
Loans	0.0	20.2	0.0	6.6	6.3	6.6	6.6	0.0	0.0	0.0
Debt relief obtained	20.5	15.7	17.8	0.0	11.5	0.0	19.6	21.2	19.1	19.1
Financing gap	0.0	0.0	0.0	13.2	0.0	21.6	0.0	40.0	42.4	56.5
Possible HIPC assistance	0.0	0.0	0.0	13.2	0.0	21.6	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	40.0	42.4	56.5
(In percent of GDP, unless otherwise indicated)										
Memorandum items:										
Total revenue and grants	18.3	18.8	18.0	---	---	19.6	19.1	19.4	19.3	19.0
Grants	1.7	2.6	1.1	---	---	2.5	2.3	2.4	2.2	2.0
Total revenue	16.6	16.2	16.9	---	---	17.1	16.8	17.0	17.1	17.0
Total expenditure	20.1	20.3	20.4	---	---	21.7	21.0	22.0	21.9	21.8
Of which										
Wages	4.7	4.6	4.8	---	---	4.8	5.1	5.1	4.8	4.5
Public investment	7.6	7.8	6.4	---	---	8.5	7.1	8.3	8.3	8.3
Social expenditure 4/	4.8	6.2	5.1	---	---	6.2	5.2	6.9	---	---
Overall balance (payment order basis, excl. grants)	-3.5	-4.2	-3.5	---	---	-4.6	-4.2	-5.0	-4.9	-4.8
Excluding HIPC-financed expenditure	-3.3	-3.2	-2.5	---	---	-3.7	-3.3	-4.2	-4.2	-4.1
Overall balance (payment order basis, incl. grants)	-1.8	-1.5	-2.4	---	---	-2.1	-1.9	-2.6	-2.7	-2.8
Primary balance (narrow definition)	2.8	1.3	1.1	---	---	1.0	0.7	0.0	-0.2	-0.2
Excluding HIPC-financed expenditure	3.1	2.3	2.0	---	---	1.9	1.6	0.8	0.5	0.4
Primary balance	-2.6	-3.3	-2.6	---	---	-3.8	-3.4	-4.3	-4.3	-4.2
GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	---	---	2,028.5	2,033.5	2,234.1	2,458.1	2,707.3

Sources: Beninese authorities; and staff estimates and projections.

1/ Including value-added taxes on imports.

2/ Total revenue minus total expenditure, excluding investment financed from abroad, interest payments, and net lending.

3/ In 2003, a provision of CFAF 1.2 billion was made in the budget to cover potential payments for debt in litigation.

4/ Comprises health and education expenditures.

Table 5. Benin: Monetary Survey, 2000-04

	2000	2001	2002	2003					2004 Dec. Proj.
				March	June	Sep.	Dec.		
							Prog. 1/	Est.	
(In billions of CFA francs)									
Net foreign assets	352.7	476.8	426.7	376.0	358.1	349.8	444.2	362.4	393.9
Central Bank of West African States (BCEAO)	261.5	371.2	318.1	282.9	266.6	257.3	335.6	269.9	301.4
Banks	91.2	105.6	108.6	93.1	91.5	92.5	108.6	92.5	92.5
Net domestic assets	172.9	115.7	143.1	172.3	177.2	176.3	172.6	193.2	217.0
Domestic credit	181.7	133.4	178.2	198.5	208.2	217.7	207.7	234.6	258.4
Net claims on central government	-12.3	-60.1	-46.5	-36.2	-55.8	-49.8	-48.3	-49.6	-55.6
Credit to the nongovernment sector	194.0	193.5	224.6	236.9	263.7	267.2	256.0	284.2	314.0
Other items (net)	-8.8	-17.7	-35.1	-26.2	-31.0	-41.4	-35.1	-41.4	-41.4
Broad money (M2)	525.6	592.5	569.8	548.3	535.3	526.1	616.8	555.6	610.9
Currency	211.2	223.8	170.9	167.4	129.6	140.5	192.6	153.7	169.4
Bank deposits	308.3	360.1	391.9	373.4	398.2	378.2	424.2	394.3	433.1
Deposits with CCP 2/	6.1	8.6	7.0	7.5	7.5	7.4	7.6	7.6	8.3
(In percentage of beginning-of-period broad money, unless otherwise indicated)									
Net foreign assets	10.7	23.6	-8.5	-8.9	-12.0	-13.5	3.1	-11.3	5.7
Net domestic assets	10.5	-10.9	4.6	5.1	6.0	5.8	5.2	8.8	4.3
Domestic credit	9.4	-9.2	7.6	3.6	5.3	6.9	5.2	9.9	4.3
Net claims on government	0.3	-9.1	2.3	1.8	-1.6	-0.6	-0.3	-0.5	-1.1
Credit to nongovernment sector	9.1	-0.1	5.2	2.2	6.9	7.5	5.5	10.5	5.4
Broad money (percentage change over beginning of period)	21.2	12.7	-3.8	-3.8	-6.1	-7.7	8.2	-2.5	10.0
Velocity of broad money (GDP relative to average M2)	3.3	3.1	3.2	...	...	...	3.4	3.6	3.8
Credit to the nongovernment sector (annual change in percent)	25.5	-0.3	16.1	29.6	25.2	28.5	14.0	26.5	10.5
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	...	...	...	2,033.5	2,033.5	2,234.1

Sources: BCEAO; and staff estimates and projections.

1/ As indicated in IMF Country Report No. 03/322 (08/27/03).

2/ CCP = Comptes Chèques Postaux.

Table 6. Benin: Balance of Payments, 2000-06

	2000	2001	2002	2003		2004	2005	2006
				Prog.1/	Est.			
(In billions of CFA francs)								
Trade balance	-181.9	-186.9	-217.6	-200.2	-213.2	-208.2	-241.5	-261.1
Exports, f.o.b.	132.9	153.2	136.4	166.4	157.4	189.1	189.0	206.2
Cotton and textiles	107.3	115.9	93.3	115.0	109.1	138.5	133.3	144.9
Other	25.6	37.3	43.1	51.4	48.3	50.6	55.7	61.3
Imports, f.o.b.	-314.8	-340.1	-354.0	-366.6	-370.6	-397.3	-430.5	-467.3
Of which								
Petroleum products	-46.8	-40.1	-42.3	-42.1	-43.0	-42.3	-40.5	-41.7
Services (net)	-25.8	-34.1	-28.7	-30.8	-31.2	-38.8	-43.2	-47.6
Credit	110.9	106.9	122.1	128.4	127.9	132.9	142.7	153.9
Debit	-136.6	-141.0	-150.8	-159.2	-159.1	-171.7	-185.9	-201.5
Income (net) 2/	-8.7	-15.6	-18.1	-17.8	-14.1	-11.6	-11.8	-12.8
Of which								
Interest due on government debt 2/	-12.4	-13.5	-14.3	-14.6	-10.4	-7.9	-8.2	-8.9
Current transfers (net)	87.6	120.2	96.2	96.2	99.8	99.0	103.1	107.6
Unrequited private transfers	59.5	59.1	55.3	53.7	56.4	57.5	58.7	59.9
Public current transfers	28.1	61.1	40.9	42.5	43.4	41.4	44.4	47.7
Of which								
Program grants	1.7	21.5	3.7	4.7	4.7	0.0	0.0	0.0
Current account	-128.8	-116.4	-168.2	-152.6	-158.8	-159.7	-193.3	-213.9
Capital account	32.3	31.8	23.8	54.3	117.9	61.9	62.3	62.9
Official project grants	32.3	31.8	23.8	54.3	50.2	61.9	62.3	62.9
Debt cancellation 3/	0.0	0.0	0.0	0.0	67.6	0.0	0.0	0.0
Financial account (net)	148.4	178.7	73.5	94.2	-10.3	89.3	89.8	91.1
Medium- and long-term public capital	29.5	61.4	39.9	39.1	45.9	40.3	34.7	30.6
Disbursements	52.4	78.9	58.6	59.8	54.2	45.7	43.9	41.1
Project loans	52.4	58.7	58.6	53.2	47.7	45.7	43.9	41.1
Program loans	0.0	20.2	0.0	6.6	6.6	0.0	0.0	0.0
Amortization due	-22.9	-17.5	-18.8	-20.7	-8.3	-5.4	-9.2	-10.5
Principal not yet due 3/	--	--	--	--	-67.6	--	--	--
Medium- and long-term private capital	53.2	26.0	8.8	48.7	28.7	34.4	37.7	41.9
Deposit money banks	11.3	-14.4	-3.0	0.0	16.1	0.0	0.0	0.0
Short-term capital	-1.6	43.7	19.6	6.4	6.4	14.6	17.4	18.6
Errors and omissions	56.0	62.0	8.3	0.0	-39.8	0.0	0.0	0.0
Overall balance	52.0	94.0	-70.9	-4.1	-51.2	-8.5	-41.2	-60.0
Financing	-52.0	-94.1	70.9	-14.3	51.2	-31.5	-1.2	3.5
Change in net foreign assets (- increase)	-57.7	-109.7	53.1	-17.5	48.2	-31.5	-1.2	3.5
Of which								
Net use of Fund resources	-2.5	-3.1	-6.8	-5.0	-4.8	-5.5	-4.6	-4.6
Loans	6.3	7.5	3.6	5.4	5.6	1.0	0.0	0.0
Repayments	-8.9	-10.5	-10.4	-10.4	-10.4	-6.6	-4.6	-4.6
Change in external arrears (+ increase)	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 4/	20.5	15.7	17.7	0.0	3.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	21.6	0.0	40.0	42.4	56.5
Possible HIPC assistance	0.0	0.0	0.0	21.6	0.0	0.0	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	40.0	42.4	56.5
(In percent of GDP)								
Memorandum items:								
Exports	8.3	8.8	7.3	8.2	7.7	8.5	7.7	7.6
Imports	19.6	19.6	18.8	18.0	18.2	17.8	17.5	17.3
Current account, including program grants	-8.0	-6.7	-9.0	-7.5	-7.8	-7.1	-7.9	-7.9
Current account, excluding program grants	-8.1	-7.9	-9.2	-7.7	-8.0	-7.1	-7.9	-7.9
(Annual changes in percent)								
Volume of exports	-11.0	-2.8	9.3	-11.0	6.5	7.3	5.3	7.1
Of which								
Cotton products	-12.3	-0.9	5.6	-18.7	4.0	6.2	4.5	7.1
Export unit price	9.0	18.6	-18.3	25.9	8.3	12.0	-5.1	1.8
Of which								
Ginned cotton	5.5	11.7	-22.4	17.4	13.0	20.0	-8.2	1.5
Volume of imports	2.0	5.0	7.3	6.0	3.9	7.9	7.0	7.2
Import unit price	5.9	2.8	-3.0	1.5	0.7	-0.6	1.2	1.2

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in IMF Country Report No. 03/322 (08/27/03).

2/ Starting with 2003, the figures are net of HIPC relief obtained after the completion point.

3/ The entry in 2003 is for the stock of debt operation at the completion point.

4/ The figure for 2003 is for HIPC relief obtained prior to the completion point in March. The rest of the HIPC relief obtained (principal as well as interest) has been netted out from the income (current account) and amortization due (financial account).

Table 7. Benin: Balance of Payments, 2000-06

(In millions of U.S. dollars)

	2000	2001	2002	2003		2004	2005 Proj.	2006
				Prog. 1/	Est.			
Trade balance	-258.0	-256.4	-313.2	-347.0	-367.5	-401.8	-467.1	-505.5
Exports, f.o.b.	188.5	210.2	196.3	288.4	271.3	364.9	365.5	399.2
Cotton and textiles	152.2	159.1	134.2	199.3	188.1	267.3	257.8	280.5
Other	36.3	51.2	62.0	89.1	83.2	97.6	107.8	118.6
Imports, f.o.b.	-446.5	-466.6	-509.5	-635.3	-638.8	-766.7	-832.6	-904.7
Of which								
Petroleum products	-66.4	-55.0	-60.9	-72.9	-74.1	-81.6	-78.4	-80.8
Services (net)	-36.5	-46.8	-41.3	-53.4	-53.8	-75.0	-83.5	-92.1
Credit	157.2	146.7	175.7	222.5	220.4	256.4	276.1	298.0
Debit	-193.8	-193.5	-217.0	-276.0	-274.2	-331.4	-359.6	-390.1
Income (net) 2/	-12.3	-21.4	-26.0	-30.9	-24.4	-22.4	-22.8	-24.8
Of which								
Interest due on government debt 2/	-17.5	-18.5	-20.6	-25.2	-17.9	-15.2	-15.9	-17.2
Current transfers (net)	124.3	164.9	138.5	166.8	172.0	191.0	199.5	208.2
Unrequited private transfers	84.4	81.1	79.6	93.1	97.2	111.0	113.5	115.9
Public current transfers	39.9	83.8	58.9	73.6	74.7	80.0	86.0	92.3
Current account	-182.6	-159.7	-242.1	-264.6	-273.7	-308.1	-374.0	-414.2
Capital account	45.8	43.6	34.3	94.2	203.2	119.4	120.6	121.7
Official project grants	45.8	43.6	34.3	94.2	86.6	119.4	120.6	121.7
Debt cancellation 3/	0.0	0.0	0.0	0.0	116.6	0.0	0.0	0.0
Financial account (net)	210.5	245.2	105.8	163.3	-17.8	172.3	173.7	176.4
Medium- and long-term public capital	41.8	84.2	57.4	67.8	79.2	77.8	67.2	59.3
Disbursements	74.3	108.2	84.4	103.7	93.5	88.2	85.0	79.7
Project loans	74.3	80.5	84.4	92.2	82.2	88.2	85.0	79.7
Program loans	0.0	27.7	0.0	11.4	11.3	0.0	0.0	0.0
Amortization due	-32.4	-24.0	-27.0	-35.9	-14.3	-9.3	-17.8	-20.3
Principal not yet due 4/	--	--	--	--	-116.6	--	--	--
Medium- and long-term private capital	75.5	35.7	12.7	84.4	49.5	66.3	72.9	81.1
Deposit money banks	16.0	-19.7	-4.3	0.0	27.8	0.0	0.0	0.0
Short-term capital	-2.3	60.0	28.2	11.2	11.0	28.2	33.7	36.0
Errors and omissions	79.5	85.1	11.9	0.0	-68.6	0.0	0.0	0.0
Overall balance	73.7	129.0	-102.0	-7.0	-88.3	-16.4	-79.6	-116.1
Financing	-73.7	-129.0	102.0	-24.8	88.3	-60.8	-2.3	6.8
Change in net foreign assets (- increase)	-81.8	-150.5	76.4	-30.3	83.1	-60.8	-2.3	6.8
Of which								
Net use of Fund resources	-3.6	-4.2	-9.7	-8.6	-8.3	-10.7	-9.0	-8.9
Loans	9.0	10.3	5.2	9.4	9.7	2.0	0.0	0.0
Repayments	-12.6	-14.5	-15.0	-18.0	-17.9	-12.7	-9.0	-8.9
Change in external arrears (+ increase)	-21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained	29.0	21.5	25.5	0.0	5.2	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	32.9	0.0	77.1	82.0	109.4
Possible HIPC assistance	0.0	0.0	0.0	32.9	0.0	0.0	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	77.1	82.0	109.4

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in IMF Country Report No. 03/322 (08/27/03).

2/ Starting with 2003, the figures are net of HIPC relief obtained after the completion point.

3/ The entry in 2003 is for the stock of debt operation at the completion point.

4/ The figure for 2003 is for HIPC relief obtained prior to the completion point in March. The rest of the HIPC relief obtained (principal as well as interest) has been netted out from the income (current account) and amortization due (financial account).

Table 8. Benin: External Debt and Scheduled Debt Service, 2000-06

(In billions of CFA francs)

	2000	2001	2002	2003 Est.	2004	2005 Proj.	2006
Total debt service due 1/	44.1	41.5	43.3	45.7	41.6	41.4	43.2
Interest	12.4	13.5	14.3	14.6	14.7	14.1	14.1
Principal	31.7	28.0	29.0	31.1	26.9	27.3	29.1
On disbursed debt at end-2001	44.1	41.5	42.5	44.3	39.7	39.0	40.2
Multilaterals (excluding IMF)	21.0	23.0	24.2	25.6	23.6	24.0	24.5
IMF	9.1	10.8	10.5	10.6	7.2	5.0	5.0
Paris Club	10.8	6.2	6.3	6.7	7.1	7.3	8.1
Other bilaterals	3.1	1.4	1.5	1.4	1.8	2.6	2.6
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	12.4	13.5	13.5	13.2	12.8	11.7	11.1
Multilaterals (excluding IMF)	6.6	7.3	7.8	8.0	7.7	6.8	6.4
IMF	0.3	0.3	0.2	0.2	0.1	0.1	0.1
Paris Club	5.0	5.3	4.8	4.5	4.3	4.2	4.0
Other bilaterals	0.4	0.6	0.6	0.6	0.6	0.6	0.5
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	31.7	28.0	29.0	31.1	26.9	27.3	29.1
Multilaterals (excluding IMF)	14.4	15.7	16.5	17.7	15.9	17.2	18.1
IMF	8.9	10.5	10.2	10.4	7.1	4.9	4.9
Paris Club	5.8	0.9	1.4	2.2	2.7	3.1	4.1
Other bilaterals	2.6	0.8	0.9	0.8	1.2	2.1	2.1
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service on new disbursements	0.0	0.0	0.8	1.3	1.9	2.4	3.0
Interest	0.0	0.0	0.8	1.3	1.9	2.4	3.0
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt relief 2/	20.5	15.7	17.8	19.6	21.2	19.1	18.9
Interest	6.8	5.2	7.7	5.0	6.8	5.9	5.2
Principal	13.7	10.5	10.0	14.6	14.4	13.2	13.7
Repayment of arrears	14.8	0.0	0.0	0.0	0.0	0.0	0.0
Interest	4.9	0.0	0.0	0.0	0.0	0.0	0.0
Principal	9.9	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service after debt relief	38.4	25.8	25.6	26.1	20.4	22.3	24.3
Interest	10.5	8.2	6.6	9.5	7.9	8.2	8.9
Principal	27.9	17.6	19.0	16.6	12.5	14.1	15.4
Debt outstanding, before traditional relief	936.7	1,017.9	994.5	966.9	996.6	1,018.4	1,049.5
Debt outstanding, after debt relief beyond enhanced HIPC	936.7	1,017.3	944.5	785.0	830.8	868.4	913.9
Net present value (NPV) of debt before traditional relief	541.7	624.9	607.6	515.3	466.8	474.9	483.2
NPV of debt after debt relief beyond enhanced HIPC	541.7	611.9	606.8	370.9	350.4	368.9	387.6

Sources: Beninese authorities; and staff estimates and projections.

1/ Before debt relief.

2/ Includes enhanced HIPC relief and relief beyond enhanced HIPC.

Table 9. Benin: Indicators of Fund Credit, 2000-06

	2000	2001	2002	2003	2004	2005	2006
					Proj.		
<b>Outstanding Fund credit 1/</b>							
In millions of SDRs	64.4	61.1	53.9	49.2	42.0	36.1	30.1
In billions of CFA francs	59.9	56.7	48.5	39.9	32.5	27.9	23.4
In percent of quota 2/	104.1	98.8	87.0	79.5	67.9	58.2	48.7
In percent of GDP	3.7	3.3	2.6	2.0	1.5	1.1	0.9
In percent of exports of goods and services	24.6	21.8	18.8	14.0	10.1	8.4	6.5
<b>Debt service to the Fund 3/</b>							
In millions of SDRs	10.3	12.1	11.8	11.9	8.9	6.3	6.3
In billions of CFA francs	9.5	11.2	10.6	9.6	7.8	4.9	4.9
In percent of quota 2/	16.6	19.6	19.1	19.1	14.4	10.2	10.2
In percent of GDP	0.6	0.6	0.6	0.5	0.3	0.2	0.2
In percent of exports of goods and services	3.9	4.3	4.1	3.4	2.4	1.5	1.4
In percent of debt service due	21.6	27.1	24.5	21.1	18.8	11.8	11.3

Sources: IMF, Treasurer's Department; and staff estimates and projections.

1/ Repurchases are based on projected disbursements throughout the period of the program.

2/ 1999 quota.

3/ Debt service to the Fund, before enhanced HIPC debt relief.



Table 10. Benin: Public Expenditure for Health and Education, 2001-04

	2001			2002			2003				2004	
	Budget 1/	Execution		Budget	Execution		Budget	September		December		Budget
		Actual	Rate of exec. 2/		Actual	Rate of exec. 2/		Actual	Rate of exec. 2/	Actual	Rate of exec. 2/	
(In billions of CFA francs)												
Health	40.8	36.2	88.8	36.4	27.4	75.2	39.5	21.2	53.7	29.7	75.3	45.6
Current outlays	23.5	19.1	81.3	19.7	14.2	72.2	23.2	14.0	60.3	17.1	73.6	27.9
Personnel	6.8	5.4	79.1	6.7	5.9	88.3	7.4	4.5	60.1	6.3	84.3	7.2
Nonpersonnel	16.7	13.7	82.2	13.0	8.3	63.8	15.8	9.5	60.4	10.8	68.6	20.8
Investment program	17.3	17.1	99.0	16.7	13.2	78.8	16.2	7.2	44.2	12.6	77.6	17.7
Domestically financed	7.3	6.3	87.2	8.7	7.5	85.7	8.8	3.2	36.1	7.3	82.5	9.6
Financed from abroad	10.0	10.8	107.5	8.0	5.7	71.3	7.4	4.0	53.9	5.3	71.8	8.1
Education	74.2	71.1	95.8	80.5	68.8	85.4	86.9	51.9	59.6	76.2	87.7	108.2
Current outlays	56.9	53.2	93.5	55.2	55.5	100.5	61.7	44.7	72.4	61.4	99.5	79.4
Personnel	33.5	34.4	102.8	33.8	38.4	113.5	37.1	32.1	86.7	41.6	112.1	45.1
Nonpersonnel	23.4	18.8	80.2	21.4	17.1	79.9	24.6	12.5	50.9	19.8	80.7	34.3
Investment program	17.3	17.9	103.4	25.3	13.3	52.5	25.3	7.2	28.5	14.8	58.8	28.8
Domestically financed	8.1	10.4	128.0	13.4	8.5	63.6	14.6	4.4	30.1	11.1	75.9	16.2
Financed from abroad	9.2	7.5	81.8	11.9	4.8	40.1	10.6	2.8	26.4	3.7	35.2	12.6
(In percent of GDP)												
Total expenditure 3/	6.6	6.2	...	5.8	5.1	...	6.2	3.6	...	5.2	...	6.9
Current outlays	4.6	4.2	...	3.7	3.7	...	4.2	2.9	...	3.9	...	4.8
Personnel	2.3	2.3	...	2.0	2.4	...	2.2	1.8	...	2.4	...	2.3
Nonpersonnel	2.3	1.9	...	1.7	1.4	...	2.0	1.1	...	1.5	...	2.5
Investment program	2.0	2.0	...	2.1	1.4	...	2.0	0.7	...	1.4	...	2.1
Domestically financed	0.9	1.0	...	1.1	0.9	...	1.2	0.4	...	0.9	...	1.2
Financed from abroad	1.1	1.1	...	1.0	0.6	...	0.9	0.3	...	0.4	...	0.9

Sources: Beninese authorities; and staff estimates and projections.

1/ Includes social measures in supplementary budget.

2/ In percent.

3/ Total expenditure for health and education.

Table 11. Benin: Selected Demographic and Social Indicators

Indicator	Sub-Saharan Africa 1/	Latest Single Year			2002 2/
		1970-75	1980-85	1990-95	
(In units indicated)					
GNP per capita (U.S. dollars)	480	220	280	350	380
Population					
Total (millions)	659	3.0	4.0	5.5	6.4
Annual growth rate (in percent)	2.5	2.4	3.0	2.8	2.6
Urban population (percent of total)	32.3	21.9	30.8	41.8	43.0
Life expectancy (years)	46.0	46.0	50.0	50.2	53.0
Total fertility rate (births per woman)	5.1	7.0	6.9	6.0	5.4
Total, ages 15-64 (millions)	320.1	1.6	2.0	2.7	3.1
(Percent of school-age population)					
Education					
Primary school enrollment ratio (gross)	78.0	50.0	68.0	73.3	78.0
Male	85.0	70.0	90.0	93.2	98.0
Female	72.0	31.0	45.0	53.5	57.0
Secondary school enrollment ratio	26.5	9.0	17.0	15.7	17.0
(In units indicated)					
Primary school pupil-to-teacher ratio	41.0	53.0	33.0	52.0	53.0
Adult illiteracy rate (in percent of total)					
Population ages 15 and above	37.0	85.8	78.0	68.5	61.0
Female	50.0	92.3	87.4	80.9	76.0
Health					
Infant mortality rate (per 1,000 live births)	92.0	136.0	119.0	94.9	87.0
Access to safe water (percentage of population)	49.0	34.0	...	54.0	63.0
Urban	81.0	83.0	...	...	74.0
Rural	37.0	20.0	...	...	55.0
Food production index (1989-91=100)	109.4	49.5	79.9	130.4	126.0
Child malnutrition (percentage of children under age 5)	28.4	...	...	24.0	...

Sources: World Bank: *World Development Indicators and World Bank Africa Database*.

1/ Latest year available.

2/ 2002 data where available; otherwise, latest available year.

Table 12. Benin: Financial and Structural Benchmarks and Performance Criteria Under the 2003 Program

(In millions of CFA francs)

	End-March		End-June		End-September		End-December	
	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.
Performance criteria 1/								
Net bank credit to the government 2/	-49.7		-48.8		-43.4		-46.8	
Adjusted 3/	-44.7	-36.1	-44.1	-53.9	-40.3	-49.5	-46.6	-47.8
Deficit of central government, including grants and debt relief (cumulative, since end-December 2002) 4/ 5/	-7.6		-13.0		-22.1		-25.2	
Adjusted 6/	-5.8	-11.3	-17.7	-9.7	-25.1	-17.7	-25.4	-17.4
Nonaccumulation of new external payments arrears by the central government (cumulative, since end-December 2002) 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt with a maturity of less than one year (stock)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets (cumulative, since end-December 2002)								
Wage bill	22.9	24.6	49.4	51.6	76.9	79.1	96.7	103.0
Health expenditure	8.9	4.5	17.8	15.5	26.7	21.2	35.6	29.7
Education expenditure	19.6	12.3	39.1	33.7	58.7	51.8	78.2	76.2
Total government revenue 8/	80.2	73.3	162.8	160.2	253.8	245.8	346.0	341.5
Primary government expenditure 9/	72.8	75.3	155.2	151.6	242.8	241.6	326.5	326.8
Memorandum items (cumulative, since end-December 2002):								
Program grants and loans	6.6	0.0	11.3	6.6	11.3	8.2	11.3	11.3
Target for spending on projects financed by enhanced HIPC Initiative	2.7	1.1	7.7	10.7	11.8	12.1	19.4	19.2

1/ Performance criteria for end-March and end-September 2003; indicative targets for end-June and end-December 2003.

2/ Program targets were to be adjusted downward (upward) by the amount by which disbursements on non-project-related external assistance, excluding debt relief, exceeded (fell short of) the amount programmed. In addition, program targets were to be adjusted downward by the amount by which proceeds from privatization exceeded the amount programmed for restructuring expenditure and by the amounts of newly issued treasury bonds held outside the banking sector. They were also to be adjusted downward by the amount of underspending on projects financed by the HIPC Initiative.

3/ The target for end-March is adjusted upward by CFAF 6.6 billion of undisbursed program loans and downward by CFAF 1.56 billion of unspent HIPC Initiative resources. The target for end-June is adjusted upward by CFAF 4.7 billion of undisbursed program grants. The target for end-September is also adjusted upward by CFAF 3 billion of undisbursed program grants.

4/ The deficit of the central government is defined as the opposite of the sum of the net external financing (excluding grants and enhanced HIPC Initiative assistance) and domestic financing of the central government.

5/ The ceiling on the deficit (surplus) of the central government was to be reduced (increased) by the amount by which disbursements on nonproject grants or debt-service relief exceeded the amount programmed. The ceiling on the deficit (surplus) was also to be reduced (increased) by the amount of underspending on projects financed by HIPC Initiative resources. In addition, the ceiling on the deficit (surplus) was to be increased (reduced) by the amount by which disbursements on budgetary assistance or debt-service relief fell short of the amount programmed.

6/ The ceiling for end-March is reduced by the amount of CFAF 0.2 billion of debt-service relief that exceeded the amount programmed, and by CFAF 1.56 billion of unspent HIPC resources. The ceilings for end-June and end-September are increased by the amounts of CFAF 4.7 billion and CFAF 3 billion of undisbursed program grants, respectively.

7/ Excluding arrears on debt obtained from non-Paris Club creditors for which the authorities are negotiating for conditions comparable to those agreed by Paris Club members in October 1996.

8/ Excluding grants.

9/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

Table 13. Benin: Indicative Targets for 2004

(In billions of CFA francs, unless otherwise indicated)

	End-March	End-June	End-September	End-December
Indicative targets				
Net bank credit to the government	-34.8	-63.1	-50.7	-49.9
Nonaccumulation of new external payments arrears by the central government	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government	0.0	0.0	0.0	0.0
Short-term external debt with a maturity of less than one year (stock)	0.0	0.0	0.0	0.0
Wage bill 1/	28.4	56.8	87.7	114.1
Poverty-reducing expenditure 1/	20.4	42.8	72.4	102.0
Total government revenue 1/ 2/	92.2	189.5	285.7	380.4
Primary government expenditure 1/ 3/	88.5	182.6	286.2	381.6
Memorandum items:				
Program grants and loans 1/	0.0	32.0	32.0	40.0
Target for spending on projects financed by enhanced HIPC Initiative 1/	4.5	9.0	13.4	17.9

1/ Cumulative amounts since end-December 2003.

2/ Excluding grants.

3/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

Table 14. Benin: Structural Benchmarks and Prior Actions for the Sixth Review of the PRGF-Supported Program

Measures	Timetable	Status of Implementation
<b>Structural benchmarks</b>		
Offer for sale the government's shares in the Continental Bank.	End-September 2003	Met in mid-January 2004
Launch a call for bids to audit the cross debts of public enterprises with the government.	End-September 2003	Met
Integrate external debt service in the computerized expenditure management system (SIGFIP).	End-September 2003	Met
<b>Prior actions</b>		
Resume the process of privatizing the public ginning company (SONAPRA) in a transparent manner.	End-December 2003	Met
Adopt an action plan for the recovery of the tax arrears of national oil distribution company (SONACOP).	Early February 2004	Met
Adopt cuts in budgetary allocations for 2004 (amounting to CFAF 6 billion) to compensate for unplanned salary raise granted in late November 2003.	End-January 2004	Met
Abstain from adopting a supplementary budget for 2004 to provide for new expenditure for the organization of the junior Pan-African soccer games until an agreement has been reached with major donors on the magnitude and financing of such a budget.		

Table 15. Benin: Use of Enhanced HIPC Initiative Funds, 2000-04

(In millions of CFA francs)

Policy Areas	2000	2001		2002		2003			2004	
		Budget	Actual	Budget	Actual	Budget	June	September	December Est.	Budget
Health	550	11,811	8,796	9,568	9,568	10,708	7,881	8,628	10,125	7,865
Recruit personnel to fill vacant positions										
at primary health care facilities	550	2,100	2,095	1,550	1,550	2,188	2,188	2,188	2,188	2,188
Implement AIDS program	...	2,200	872	770	924	1,120	250	525	1,079	900
Implement antimalaria program	...	1,988	1,321	1,350	1,271	685	219	326	677	900
Procure medicine for health centers	...	2,246	1,704	1,470	1,466	1,680	1,660	1,660	1,680	1,410
Improve access to safe water	...	854	547	1,340	1,288	1,547	155	514	1,014	1,505
Improve health system	...	1,586	1,420	1,327	1,325	1,627	1,597	1,603	1,625	...
Increase child immunization	...	837	837	879	879	900	900	900	900	961
Improve health assistance	...	...	...	882	865	961	912	912	961	...
Education	2,950	7,451	6,667	8,875	7,625	8,237	2,704	2,786	7,747	9,783
Recruit teachers to fill vacant positions in rural areas	950	1,956	1,956	2,256	2,124	2,510	113	115	2,491	4,220
Eliminate school fees in rural areas and compensate schools for the loss of revenue	2,000	2,200	2,123	2,704	2,660	2,129	1,500	1,500	2,121	2,800
Refurbish classrooms	...	586	293	1,334	398	835	0	41	276	...
Refurbish classroom equipment	...	2,559	2,145	734	596	900	66	103	830	...
Conduct a study on improving the education system	...	150	150	847	847	762	400	400	930	987
Improve school cafeterias	...	...	...	1,000	1,000	1,100	625	627	1,100	1,275
Improve adult literacy (alphabetization)	...	...	...	...	...	...	...	...	...	500
Rural development (maintenance of feeder roads)		1,098	750	1,371	1,101	621	134	644	1,323	172
Total	3,500	20,360	16,213	19,814	18,293	19,567	10,719	12,058	19,196	17,820
Total enhanced HIPC resources received	5,600		15,680		17,794		6,732	11,473	19,600	...

Table 16. Benin: Summary of Key Structural Measures, 2003

Policy Area	Measures	Timing of Measures	Status of Implementation
Tax administration	Implement the new action plan to improve the performance of the tax and customs administrations	2003	Implemented
	Implement the necessary measures to boost collection of nontax revenue	2003	Implemented
Expenditure management 1/	Limit the number of cash advance accounts for current spending to one account per administrative structure or department	End-December 2003	Partially implemented
	Integrate external debt service into the computerized expenditure management system (SIGFIP)	End-September 2003	Implemented
	Implement the action plan to improve the operation of the SIGFIP, with a view to ensuring that all expenditure is channeled through the system	2003	Implemented
	Complete the audit for expenditure financed with HIPC resources in 2001	End-September 2003	Completed
	Launch a call for bids to audit the cross debts of public enterprises with the government	End-September 2003	Implemented
	Complete an audit of cross debts of public debts of public enterprises with the government	End-December 2003	Delayed
	Establish the status of liabilities of public enterprises already liquidated or in being privatized	End-December 2003	Delayed
Civil service reform 1/	Define a new strategy for the implementation of the civil service reform	End-December 2003	Delayed
	Complete an actuarial study of the civil service pension fund (FNRB)	End-December 2003	Delayed
Decentralization	Prepare and adopt an action plan establishing how the management of appropriations for local government currently centrally managed will be transferred	End-September 2003	Delayed
Poverty reduction strategy	Complete a first progress report of the poverty reduction strategy paper (PRSP)	End-September 2003	Completed with delay
Cotton sector 1/	Complete the process of selling SONAPRA's ginning mills	End-December 2003	Delayed
Post and telecommunications 1/	Adopt a decree separating the telecommunications sector from the post office	End-September 2003	Delayed
	Adopt a decree establishing the regulatory body for the sector	End-September 2003	Delayed
Port of Cotonou 1/	Complete the feasibility study defining the modalities for the implementation of the process of involvement of the private sector in the management of the port	End-2003	Delayed
Financial sector	Offer for sale government's shares in the Continental Bank	End-September 2003	Completed with delay

1/ Areas where the World Bank is assisting the authorities.

Cotonou, February 17, 2004

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
700 19th Street, NW  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Köhler:

1. In 2003, the government of Benin continued to implement the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement approved on July 17, 2000. Overall, macroeconomic performance in 2003 was satisfactory. GDP growth rate reached 5½ percent and inflation remained below 2 percent, while the current account deficit narrowed to 8 percent of GDP.
2. All the performance criteria and structural benchmarks for end-September 2003, as well as the corresponding indicative quantitative targets for end-December 2003, were met; all of the prior actions for the conclusion of the review (listed in the attached table) have been implemented.
3. On the basis of the above, the government requests completion of the sixth review and the release of the last disbursement under the arrangement in an amount of SDR 1.35 million.
4. The government remains committed to the objectives of fostering growth and reducing poverty after the expiration of the current arrangement.
5. As was the case in the past, the government consents to the Fund's publication of this letter and the staff report for the sixth review under the PRGF arrangement.

Sincerely yours,

/s/

GREGOIRE LAOUROU  
Minister of Finance and Economy

Attachment



Prior Actions for the Sixth Review  
of the PRGF Program

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Measures

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Resume the privatization process for SONAPRA in a transparent manner.

Adopt an action plan for the recovery of the national oil distribution company (SONACOP) tax arrears.

Adopt cuts in budgetary allocations for 2004 (amounting to CFAF 6 billion) to compensate for unplanned salary raise granted in late November 2003.

Abstain from adopting a supplementary budget for 2004 to provide for new expenditure for the organization of the junior Pan-African soccer games until an agreement is reached with major donors on the magnitude and financing of such a budget.

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**Benin: Relations with the Fund**

(As of December 31, 2003)

**I. Membership Status:** Joined July 10, 1963; Article VIII

<b>II. General Resources Account:</b>	<b>SDR million</b>	<b>% of quota</b>
Quota	61.90	100.0
Fund holdings of currency	59.72	96.48
Reserve position in the Fund	2.19	3.53

<b>III. SDR Department:</b>	<b>SDR million</b>	<b>% allocation</b>
Net cumulative allocation	9.41	100.00
Holdings	0.13	1.36

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR million</b>	<b>% quota</b>
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction Growth Facility (PRGF) Arrangements	49.21	79.49

**V. Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	07/17/2000	03/31/2004	27.00	25.65
ESAF/PRGF	08/28/1996	07/16/2000	27.18	16.31
ESAF	01/25/1993	05/21/1996	51.89	48.39

**VI. Projected Payments to Fund (without HIPC Assistance)**

(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	8.52	5.98	5.93	5.33	5.64
Charges/interest	0.37	0.33	0.30	0.27	0.25
Total	8.89	6.31	6.23	5.60	5.88

**Projected Payments to Fund (with Board-approved HIPC Assistance)**

(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	5.20	4.51	5.01	4.41	5.64
Charges/interest	0.37	0.33	0.30	0.27	0.25
Total	5.58	4.84	5.31	4.68	5.88

**VII. Implementation of HIPC Initiative:**

Commitment of HIPC assistance	Enhanced <u>Framework</u>
Decision point date	Jul 17, 2000
Assistance committed (net presentation value terms)	End-1998
Total assistance (US\$ million)	265.00
<i>Of which:</i> Fund assistance (US\$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	March 2003
Delivery of Fund assistance (SDR million)	
Amount disbursed	18.40
Interim assistance	11.04
Completion point	7.36
Additional disbursement of interest income	1.66
Total disbursement	20.06

**VIII. Safeguards Assessments:**

The Central Bank of West African States (BCEAO) is the common central bank of the west African states, which includes Benin. An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although the Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies:

- **Financial reporting framework.** Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the **BCEAO would strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, as adopted internationally by other central banks.**
  
- **Internal controls system.** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), BCEAO staff would propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor would be required to appraise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.**

Based on the 2002 financial statements, the staff noted that the BCEAO had improved the explanatory notes to the financial statements, and further changes were scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting, to the extent applicable, to central banks by 2005. The external auditor apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2002 were published on the bank's website. The staff will continue to follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process.

**IX. Exchange Arrangement:**

Benin is a member of the West African Monetary Union (WAMU). The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of EUR 1 = CFAF 655.957. As of January 28, 2004, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 779.602.

**X. Article IV Consultations:**

The last Article IV consultation discussions were held in Cotonou during March 11-22, 2002. The staff report (IMF Country Report No. 02/158; 7/01/02), together with a statistical appendix (IMF Country Report No. 02/164; 7/01/02), was discussed by the Executive Board, and the 2002 Article IV consultation was concluded, on July 15, 2002.

**XI. ROSC Assessment:**

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be urgently taken to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (IMF Country Report No. 02/217).

**XII. Technical Assistance:**

<b>Department</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Purpose</b>
FAD	Resident expert	September 1989- September 1994	Advising Minister of Finance on tax reform

FAD	Resident expert	November 1990- November 1992	Advising Minister of Finance on budgetary procedures
STA	Technical assistance	February 4-17, 1998	Formulating a strategy to improve statistical organization and management of the Central Bank of West African States
FAD	Technical assistance	September 7-22, 1998	Advising Minister of Finance on tax administration
STA	Technical assistance	April 17-28, 2000	Devising new questionnaires for balance of payments statistics and reactivating the banking settlements reporting system
FAD	Technical assistance	April 25-May 5, 2000	Advising Minister of Finance on tax administration
STA	Technical assistance	May 7-11, 2000	Improving the collection, compilation, and dissemination of data on monetary and financial statistics
FAD	Technical assistance	May 16-29, 2001	Preparing a fiscal transparency module of a ROSC and assessment of capacity to monitor HIPC resources

FAD	Technical assistance	September 11-25, 2002	Helping the authorities strengthen domestic revenue and customs administrations
FAD	Technical assistance	August 23 – September 3, 2003	Evaluating public expenditure management reforms and monitoring capacity of poverty-reducing expenditures
FAD	Technical assistance	October 22 – November 5, 2003	Evaluating the implementation of the action plan to strengthen domestic revenue and customs administrations

**XIII. Resident Representative:**

Mr. Harmsen has been the Resident Representative since November 1, 2002.

**Benin: Relations with the World Bank Group**  
(As of February 12, 2003)

**Partnership in Benin's development strategy**

1. Benin's poverty reduction strategy paper (PRSP), finalized in December 2002, was discussed at the Bank and Fund Boards in March 2003. The PRSP provides a framework for aligning donor assistance programs, including those of the Bank and the Fund, with the country's poverty reduction efforts.
2. The IMF has taken the lead in helping Benin maintain macroeconomic stability, under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement approved in July 2000. The PRGF arrangement addresses issues related to fiscal consolidation and structural reforms that are key to maintaining macroeconomic stability and fostering growth. The PRGF's structural conditionality has focused on the following areas: public expenditure management, tax administration, civil service reform, and the privatization program.
3. Public expenditure management reform has been an important focus of the Bank's assistance program. In close collaboration with the Fund and other donors, the Bank has provided technical and financial assistance to the government's reform efforts in this area. The Bank has also been in the lead in helping Benin strengthen the provision of basic social services, most importantly in the education and health sectors, pursuing a divestiture program in the utility and infrastructure sectors, and enhancing the competitiveness of the cotton sector.

**IMF-World Bank collaboration in specific areas**

4. Common objectives and joint support for Benin's PRSP and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) processes have increased collaboration between the Fund and Bank in recent years. The Bank and Fund teams are closely coordinating their policy advice to the authorities. There is also close coordination in the determination of structural conditionality. However, the Bank's strategic shift toward programmatic lending, as outlined in the Country Assistance Strategy (CAS), has an important effect on the Bank's approach toward conditionality: the Bank is increasingly moving toward an ex post assessment of progress and is modulating its financial support to the pace of reform implementation.
5. In general, the Bank is leading the policy dialogue on key structural aspects of the reform program, with a strong focus on public expenditure management. The Fund is in the lead in the policy dialogue on macroeconomic issues, particularly fiscal elements of the reform. As described below, there are several areas in Benin's reform program in which the Bank and Fund are sharing the lead in supporting the authorities, and others in which one or the other institution is in the lead.

*Areas in which the Bank leads*

6. **Divestiture program and private sector development.** The Bank has supported Benin's program for the divestiture of public enterprises through the Private Sector Development Project and through the now-closed Transport Sector Project. The remaining enterprises to be privatized include the cotton parastatal, SONAPRA, and most public utilities: the telecommunications company (OPT), the water and electricity distribution company (SBEE), and the Autonomous Port of Cotonou (PAC). Assistance for the privatization of the OPT is provided through the Private Sector Development Project. The Bank supports the privatization of the electricity branch of the SBEE through the preparation of a Energy Services Delivery Project. Successful completion of this privatization is a condition for moving to the second phase of this project. The privatization of SONAPRA's ginning mills is supported by the cotton sector project. The Transportation Sector Project assisted the Government in designing a strategy to involve the private sector in the management of the PAC. The Fund is involved in policy dialogue on these operations, given the importance of the divestiture program to macroeconomic stability and growth.

7. **Social sector reforms.** Improving access to basic social services is one of the four main strategic pillars of Benin's PRSP, and the health and basic education sectors are among the priority sectors that have received increased budget allocations in the medium term expenditure framework (MTEF). The Bank supported reform programs in these sectors through investment projects that were closed in the past three years. In line with the CAS discussed at the Bank's Board on July 3, 2003, the Bank is continuing to work closely with the government on enhancing access to, and quality of, education and health care services through policy dialogue and financial and technical assistance in the context of the forthcoming Poverty Reduction Support Credit (PRSC). A number of key policy measures in these two sectors have been implemented as conditions for reaching in March 2003 the enhanced HIPC Initiative completion point, and others are expected to be taken as prior actions for the PRSC. The Bank is also playing a lead role in support of a multisector response to the HIV/AIDS pandemic, based on the Government's comprehensive strategic framework covering 2000-05, adopted in December 2000. A Bank HIV/AIDS project was approved in January 2002.

8. **Poverty monitoring.** The PRSP presents an action plan to establish a reliable database for measuring income poverty in 2003 using a revised methodology. The Bank is providing technical support for the implementation of this action plan and for other efforts aimed at strengthening the knowledge base poverty in Benin, such as the poverty and social impact analysis (PSIA) of cotton sector reform, that is being prepared by IDA in collaboration with the government. The PSIA is expected to be delivered to the Government this year. The Bank is also advising the authorities, in the context of the implementation of the PRSP, on strengthening institutional arrangements for monitoring and evaluating poverty in the country. In addition, the Bank has prepared a Poverty Assessment (PA), which is expected to be released by end February 2004.



9. **Cotton sector reforms.** Cotton is Benin's only major cash crop, and the sector has accounted in recent years for around 80 percent of its export earnings. The cotton sector is a key focus of the Bank's assistance program. A comprehensive reform of this sector, aimed at liberalizing and strengthening the capacity of producers, has been undertaken since the early 1990s, with the support of the Bank and bilateral donors. Important progress has been achieved so far, such as by eliminating the monopsony of the state enterprise (SONAPRA) in cotton marketing, liberalizing input supply, and opening the sector to private ginners. In 2002, the Bank Board approved a Cotton Sector Reform Project, which is supporting the consolidation of the reforms. These include the recently launched process for privatization of the SONAPRA, as well as, the strengthening of the capacities of producers' associations and the new private institutions managing the sector. As Benin's PRSP indicates, there has been an apparent increase in rural poverty, including in cotton-producing areas, in spite of sustained economic growth in the past years.

*Areas in which the Bank and Fund share the lead*

10. **Public expenditure management reform.** Through its Public Expenditure Reform Adjustment Credit (PERAC) and related Supplemental Credit (now both closed), the Bank played a lead role in assisting the authorities in putting in place a framework for a thorough public expenditure management reform, which was launched in 2001. The PERAC aimed at enhancing the effectiveness and poverty focus of public expenditure, with the following specific objectives: (i) the delegation of spending authority from the Ministries of Finance and Planning to line ministries; and (ii) a move toward performance-based budgeting through well-defined program budgets formulated within an MTEF in line with PRSP priorities. The PERAC supported a set of institutional reforms and capacity-building measures essential to reach these objectives. The reform has achieved good progress so far, such as the finalization of an MTEF on the basis of the PRSP, the completion of a performance-based budget cycle, an effective delegation of spending authority to line ministries, and an introduction of a computerized budget implementation system, as well as in the area of reporting on and auditing Government accounts. The Bank is also conducting a Public Expenditure Review (PER) focused on education, health and rural water which is planned to be delivered to the government by May 2004. The Fund has supported these reform efforts through a number of financial and structural benchmarks in the PRGF management.

11. **Fiscal policy and fiduciary framework.** Fiscal consolidation is a key objective of the Fund-supported PRGF arrangement. The Bank is focusing on inter- and intrasector allocations, in particular in the priority sectors covered by the PERAC and the future PRSCs (education, health, water and sanitation, transportation, agriculture, forestry and environment). These priority sectors have represented about 55 percent of total expenditure, excluding debt service, in recent years. In addition, the Bank is helping to strengthen Benin's fiduciary framework through analytical and advisory activities (AAA), such as forthcoming updates of the Country Procurement Assessment Report (CPAR), the Country Financial Accountability Assessment (CFAA), and the governance and anti-corruption survey. The

forthcoming PRSC will support a comprehensive action plan for public procurement reform that addresses main weaknesses identified in the 1999 CPAR.

12. **Poverty reduction strategy.** Together with other external development partners, the Bank and Fund have jointly provided assistance to the government in the preparation of Benin's PRSP. The PRSP was discussed at Bank and Fund Boards in March 2003, together with a joint staff assessment prepared by Bank and Fund staffs. Both institutions will continue to jointly advise the authorities on the refinement, implementation, monitoring, and evaluation of the strategy. Bank and Fund staffs will also help the government finalize its first annual progress report of the poverty reduction strategy by end-March 2004.

13. **Debt sustainability.** The Bank and Fund jointly supported the Government's efforts to reach the HIPC completion point in March 2003. In this context, Bank and Fund staffs updated the debt sustainability analysis for Benin, in close collaboration with the authorities. To maintain debt sustainability after enhanced HIPC Initiative relief, the authorities will need to pursue a prudent external financing policy. The Bank and Fund intend to continue the dialogue with the government on this issue, including providing advice on the required strengthening of domestic capacities for debt management.

14. **Civil service reform and devolution policy.** The Bank provided in the past major technical assistance for the design of the reform of the civil service promotion and compensation system. Through its Enhanced Structural Adjustment Facility (ESAF) and subsequent PRGF, the Fund has included structural measures designed to implement this reform. However, a key measure, the adoption of legislation regarding the new compensation system for civil servants, has been stalled for several years. Another important area of public sector reform is the devolution policy, which gained momentum following the municipal elections held in December 2002. The Fund is monitoring closely the fiscal implications of this policy. The Bank has recently conducted two pieces of analytical work on public administration reform and decentralization as a basis for policy dialogue.

15. **Financial sector policy.** The Fund has supported the government's efforts to strengthen Benin's financial sector in the context of the PRGF arrangement. These efforts have focused on ensuring that banks meet the Regional Banking Commission's prudential ratios. The reform of the financial sector also includes the divestiture of the state-owned Continental Bank and the rehabilitation of microfinance institutions. As part of the Private Sector Development Project, the Bank has been providing support to two major microfinance institutions. A financial sector review is under way and the report is due by May 2004.

*Areas in which the Fund leads*

16. **Macroeconomic stability.** The medium-term objective of Benin's macroeconomic program is to achieve strong economic growth and reduce poverty, while maintaining financial stability. The Fund is supporting this program through its PRGF framework by providing financial and technical assistance, as well as through its dialogue on macroeconomic policy reforms. The program has made satisfactory progress since approval

of the PRGF arrangement in 2000. The PRGF-supported program for 2003 is consistent with the baseline budgetary scenario of the PRSP for 2003-05.

17. **Tax and custom administration reforms.** Enhancing Benin's fiscal revenues is a key objective of the PRGF-supported macroeconomic program. Specific measures and benchmarks aimed at this objective have been included in the PRGF structural conditionality. The authorities have prepared action plans aimed at improving the performance of the tax and customs administrations as well as broadening the tax base. These action plans are being improved with technical assistance from the Fund.

### **World Bank strategy**

18. The Bank prepared a new Country Assistance Strategy (CAS), which was discussed at its Board on July 3, 2003. The overriding objective of the Bank's assistance in the years ahead is to help Benin reverse the recent trends of limited or no poverty reduction amid relatively robust growth. Progress in reducing poverty and attaining the Millennium Development Goals (MDGs) requires further deepening of cotton sector reforms, strengthening efforts toward diversifying the economy, making tangible progress in the social sectors, building effective and responsive public institutions, promoting gender equality, and strengthening collaboration with the private sector and civil society. The CAS describes a focused program of financial assistance and nonlending services as the Bank's contribution to addressing these challenges. It supports the implementation and further refinement of the PRSP, and it is aligned to the four PRSP pillars.<sup>1</sup>

19. The CAS enforces the gradual shift of the Bank's lending program toward programmatic lending, as initiated under the interim CAS (I-CAS) approved in January 2001 and in response to the PRSP's explicit invitation to donors to do more in that area. Building on the PERAC, the Bank expects this shift to enhance the development impact of its assistance to Benin by fostering national leadership of development programs. It should also facilitate and enhance donor coordination around Benin's PRSP. This will require, however, a continued strong commitment to advance public sector management reforms aimed at increasing efficiency in the use of public resources. To address these transitional challenges, the Bank will continue its support of Benin's public expenditure reform through financial and technical support. Annual single-tranche PRSCs are envisaged to become a key vehicle for

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<sup>1</sup> The four pillars to effective poverty reduction are the following: (i) the strengthening of the medium-term macroeconomic framework; (ii) human development and environmental management, including improving the access of the poor to quality basic services (basic education, primary health care, water and sanitation, food security and nutrition, adequate habitat, and rural roads); (iii) improvement of governance and institutional reforms, such as decentralization, public administration reform, and strengthening of the legal and judicial system; and (iv) improvement of employment or income-generating opportunities for the poor, and the strengthening of their capacity to participate in decision making and production.

Bank support for the country. A first PRSC is under preparation and is expected to be presented to the Bank's Board in March 2004.

20. The PRSP preparation process has fostered collaboration between the Bank and other development partners, including civil society organizations. Donors have signaled their willingness to align their assistance programs to the PRSP and some of them (the European Union, African Development Bank, Switzerland, Denmark, and the Netherlands) are preparing budget support operations, in close coordination with the Bank's PRSC preparation process.

**Benin: Status of World Bank Portfolio**  
(In millions of U.S. dollars, as of February 12, 2003)

	Effectiveness Date	Original Principal (IDA)	Disbursed (IDA)
First Decentralized Cities Management	3/28/00	25.5	22.3
Distance Learning	11/22/00	1.8	1.5
Labor Force Development	3/13/01	5.0	1.7
Private Sector	8/31/00	30.4	16.6
Cotton Sector Reform	9/12/02	18.0	2.4
HIV/AIDS Multi-Sector	7/17/02	23.0	5.3
<b>Total</b>		<b>103.7</b>	<b>49.8</b>

21. As of February 12, 2003, the Bank lending portfolio consisted of six operations, with a net commitment of US\$103.7 million and an undisbursed balance of US\$53.9 million (see table above). The Social Fund was closed in December 2003 as scheduled. The CAS has a determined lending volume for the period FY04 - FY06 amounting to US\$200 million. As discussed previously, a large part of IDA financing (US\$85 million) will be channeled through PRSCs. As indicated in the CAS, a key objective of the Bank's nonlending program is to help the government strengthen its sector-wide expenditure programs as a basis for consolidating programmatic support and building the capacity required for preparing, implementing, and monitoring these programs.

Prepared by World Bank Staff. Questions may be asked to Ms. Diarietou Gaye, acting Country Director for Benin at 5390+320; or Ms. Claude Leroy-Thémèze, Country Economist for Benin at 5390+316

## **Benin: Statistical Issues**

(As of February 2, 2004)

1. Core statistical indicators are generally provided to the Fund on a timely basis (see attached table). However, there are weaknesses in the areas of national accounts, public finance, monetary statistics, and balance of payments. In January 2001, the authorities adopted the General Data Dissemination System (GDDS) as the framework for the development of Benin's national statistical system; sectoral metadata, which were initially posted on the Fund's Dissemination Standards Bulletin Board in September 2001, are due to be updated. As a follow-up to GDDS participation, STA technical assistance (funded by the Japanese government) is being offered to the eight member countries of the West African Economic and Monetary Union (WAEMU) to assist them in implementing plans for the improvement of their statistical systems. A Fund regional statistical advisor initiated a program of assistance in government finance statistics, which is now managed by the West Africa Regional Technical Assistance Center (AFRITAC West). A real sector statistics improvement program, conducted in collaboration with the regional statistical office AFRISTAT and initiated in May 2002, has been extended to March 2004.

### **Real sector**

2. Beninese national statistics agencies were represented at two GDDS seminars, one in Yaoundé in October 1998 and another in Bamako in April 2001. As a follow-up to the GDDS workshop in Bamako, significant initiatives are expected in order to upgrade Benin's national income accounting system, which is based on 1968 System of National Accounts (SNA 1968). Benin also participates in WAEMU's harmonization of statistical methodologies through the multilateral surveillance process, currently seeking regional improvements in the area of national accounts. In 2003, the National Statistics Institute (INSAE) undertook the necessary steps to change the base year for the accounting of the agricultural output and to include the amortization in the public administration accounts.

3. Starting with January 1998, Benin has been producing the WAEMU harmonized consumer price index (CPI), in compliance with WAEMU standards. A household budget survey is currently being undertaken by INSAE, with technical assistance from INSEE, the French statistical agency; the survey results will permit updating of CPI expenditure weights which will reflect post 1994 CFA devaluation consumption patterns. An index of industrial production is not compiled.

### **Public finances**

4. Monthly government finance statistics are compiled by the Ministry of Finance with a one- to three-month lag, based on information provided by the budget, customs, tax, and treasury directorates. The Ministry of Finance prepares a monthly reconciliation of spending commitments made by the budget directorate and payments made by the treasury. However, no final budget or treasury accounts are published at the end of the fiscal year. Benin

currently does not report public finance data for publication in *International Financial Statistics (IFS)* or the *Government Finance Statistics Yearbook (GFSY)*.

### **Monetary statistics**

5. Benin's monetary statistics are compiled and disseminated by the regional Central Bank of West African States (BCEAO). Over the past year, there has been an improvement in the timeliness of reporting monetary data for publication in *IFS*, with reporting lags reduced from about six months to three-four months.

6. The BCEAO has experienced difficulties in estimating currency in circulation for the individual member countries, partly because of delays in processing cash in its vaults. Currency notes held in the vault are subtracted from currency in circulation, even though the former contains a large proportion of notes from other WAEMU countries. In 1999, the BCEAO accelerated the sorting out of currency notes, which in the case of Benin, resulted in a sharp increase in estimates for both currency in circulation and the central bank's foreign assets; however more progress is needed to avoid bias in monetary statistics.

7. A monetary and financial statistics mission visited the BCEAO headquarters in Dakar in May 2001, and STA participated in a BCEAO-sponsored seminar on monetary statistics in April 2003. In these regional forums, STA reviewed with the BCEAO representatives outstanding methodological issues that concern the member countries of the WAEMU and discussed the BCEAO's plans to adopt the *Monetary and Financial Statistics Manual*.

### **Balance of payments**

8. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO by area-wide legislation adopted by the countries participating in the WAEMU. The national agency of the BCEAO in Cotonou is responsible for compiling and disseminating Benin's balance of payments statistics, and the BCEAO headquarters in Dakar for delineating the methodology and calculating the international reserves managed on behalf of the participating countries.

9. Data consistency has significantly improved over the past few years, with a full transition to the *Balance of Payments Manual, Fifth Edition (BPM5)*. This was supported by technical assistance provided by STA (statistical advisor posted at the BCEAO headquarters in Dakar from July 1996 through July 1999), which contributed to the improved reporting of yearly balance of payments data in the framework of the *BPM5* for the period 1996-2001. With the backward revision of data to 1988, a consistent series was created. The BCEAO national agency disseminates balance of payments statistics with a seven month lag, exceeding GDDS guidelines. The BCEAO also compiles and disseminates the annual data of the international investment position data with an 18 month lag.

10. Regarding trade data, the ASYCUDA<sup>1</sup> customs computer system was upgraded in 1999, and its installation in all main border customs houses is being completed; this should allow for a better monitoring of import data and should improve the coverage of informal trade, especially with Nigeria.

11. Further improvement in the data for services and transfers (especially workers' remittances) will depend on the intensification of the contacts with reporting bodies. The authorities' commitment to strengthen the human and technical resources should be enhanced.

12. Concerning the financial account, the foreign assets of the private nonbanking sector are still not well covered, especially the assets of WAEMU residents, which are obtained through partial surveys of residents' foreign assets. The organization of an annual, exhaustive survey for the reporting of foreign direct investment transactions in Benin is still at a very preliminary stage. The BCEAO has recently implemented a compilation system allowing commercial banks to report data on payments involving nonresidents, however these data are not used to produce annual balance of payments estimates, but rather to assess existing information.

#### **Poverty data**

13. As explained in the joint staff assessment (JSA) of the poverty reduction strategy paper (PRSP), major methodological weaknesses remain regarding poverty data. In particular, the methodology used in the household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of Benin into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities are implementing an action plan to address these methodological issues.

#### **External debt**

14. The Caisse Autonome d'Amortissements (CAA) is responsible for signing international loan agreements, maintaining the debt database, and servicing the government's external debt obligations. Since 1995, the CAA has been using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to record and manage the debt. For the majority of creditors, the CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, as well as projected debt-service flows, on a loan-by-loan basis. For a small number of creditors, however, regular statements are not received.

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<sup>1</sup> The ASYCUDA (or SYDONIA, in French) software, sponsored by the United Nations Conference on Trade and Development (UNCTAD) and by donor countries, has already been implemented in many countries. Freely available to customs administration, it is provided together with appropriate staff-training schemes.

Benin: Core Statistical Indicators  
(As of end-December 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest Observation	Current	12/03	09/03	09/03	09/03	12/03	11/03	12/02	12/02	12/03	2002	2002
Date received	Current	12/03	12/03	12/03	12/03	12/03	12/03	12/03	12/03	12/03	12/03	12/03
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	Annually
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Quarterly	Annually	Quarterly
Source of update 1/	EIS/FIN	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Planning	Ministry of Planning	BCEAO	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	No	No	2/	2/	2/	2/	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	Annually

1/ EIS/FIN=IMF, Economic Information System, and Finance Department; BCEAO=Central Bank of West African States.

2/ Preliminary data for staff use only; actual data unrestricted.



**Statement by Damian Ondo Mañe, Executive Director for Benin**  
**March 29, 2004**

I would like to thank the staff for a well-focused and concise report on this sixth and final review of the PRGF-supported arrangement. I would also like to express my Beninese authorities' appreciation to the Fund for its continuous financial and technical support over the years.

**Developments during 2003:**

The economy of Benin has continued to perform well during 2003, and the authorities strengthened their commitment to the reform efforts. Real GDP growth was strong, inflation, measured by the consumer price index, was lower than programmed, and the current account deficit narrowed. Against this favorable economic background, the PRGF-supported program was carried out successfully. All performance criteria for end-September 2003 and the corresponding targets for December 2003 were met. In addition, with the exception of one benchmark, the structural benchmarks for end-September 2003 and the prior actions for completing the final review were observed. The Beninese authorities for their continuous efforts in many macroeconomic areas.

*In the fiscal front*, the overall deficit, on the payments order basis, excluding grants, was lower than programmed. Revenue performance was somewhat weaker than programmed due to some shortcomings in customs administration during the first quarter of the year, but during the second quarter, the authorities took strong measures which yielded substantial revenue growth near the end of the year.

On the expenditure side, there were overruns on wages resulting mainly from recruitments in the education sector, and also from unplanned indemnities to teachers. While the increased outlays on recruitment in the education sector were welcome as they represented an acceleration of spending on priority sectors in line with the PRSP, the wage overruns were the result of strong pressures brought about by protracted primary school and university teacher strikes which were undermining the achievements of students during the year.

The shortcomings in revenue and expenditure mentioned above were compensated by a fall in investment outlays. This was explained in part by a move by the authorities to cut capital expenditures by CFAF 10 billion to offset overspending at the beginning of the year, and also to late initiation of investment outlays.

A notable achievement was the continued strengthening of expenditure management during the year, with the introduction of an expenditure management system (SIGFIP), which was a structural benchmark for September 2003

*In the monetary and financial sectors*, monetary policy was, as usual, carried out by the regional central bank and was prudent. It ensured that credit was sufficiently allocated to the non-government sector. At the same time, the financial health of the banking sector continued to improve, including compliance with the prudential ratios set by the regional bank supervision commission. During the year, the government offered for sale its shares in the remaining state-owned bank.

*With respect to structural reforms*, the Beninese authorities intensified their efforts at reaching consensus with trade unions and the civil society around the need to accelerate civil service reform. This reform is intended to institute, among others, guidelines for recruitment and strengthen a merit-based policy.

In the cotton sector, delays were encountered in the privatization of the public ginning company (SONAPRA), a key element in the structural reform agenda. An investment bank was recruited with World Bank assistance in May 2003 through a competitive bidding process to help the authorities carry out the privatization in full transparency, but the pre-qualification process for selecting potential investors, launched in July was interrupted. This interruption was due to a lack of sufficient qualifying applicants. The process which resumed in early December 2003 is now expected to be completed by end-May 2004.

#### **Economic and Financial prospects for 2004:**

The policies adopted by my authorities for 2004 are intended to pursue stronger efforts to raise the GDP growth rate further, stabilize public finance while increasing significantly pro-poor outlays, improving the investment climate, and pursuing their divestiture agenda. Real GDP is expected to grow by 6 percent, slightly higher than in 2003, driven by a bumper crop in the cotton sector and a sharp increase in international prices for cotton; inflation is targeted to be in the order of 3 percent, and the external current account balance is expected to improve further.

*With respect to the fiscal sector*, the authorities adopted a budget that was prepared with the support of major donors willing to provide higher levels of concessional financing and grants and reflected the PRSP priorities.

Government revenue, based on the strength of yield at the end of 2003 and continued implementation of the various action plans recommended by Fund technical assistance, is supposed to reach 17 percent of GDP. Customs administration will be strengthened further and will involve streamlining exemptions and exonerations and expanding pre-shipment inspections. The actions taken recently to ensure tax compliance will be enhanced in order to collect tax arrears; tax audits will be carried out as well. At the same time, the government and public enterprises, notably the utility sector, will settle cross-debts.

Regarding expenditures, the authorities intend to set a ceiling on primary expenditure, excluding externally-financed investment, at 17 percent of GDP in the context of a medium-term expenditure framework updated with the joint assistance of the World Bank and the

African Development Bank. Within that ceiling, priority outlays will be accelerated in line with PRSP priorities. In that context, allocations for health and education have been increased by 15 percent and 25 percent, respectively, compared with 12 percent for total expenditure. The wage bill will remain at 5 percent of GDP, and will reflect both the general salary increase and the financial impacts of new recruitments in the social sectors. The government will tighten its spending on utilities, telephone and electricity in particular, and contain them within budgetary allocations.

Expenditure management will be strengthened further by, inter alia, making the expenditure management system (SIGFIP) fully operational by channeling through it all expenditures, including externally-financed public investments and commitments generated by procurement contracts; and improving the monitoring of budget execution, streamlining of budgetary procedures, and enhancing transparency and the tracking of poverty-reducing outlays.

My authorities are committed to following this expenditure framework strictly. Hence, the large infrastructure projects that are planned in the Government Action Plan for 2001-06, and which include a new port and a new airport, will not be undertaken without studies to evaluate technical, economic and financial viability, and without prior discussions with Fund and Bank staffs.

My authorities are also contemplating a possible supplementary budget for 2004 for the financing of a junior Africa Soccer Games event which Benin will host in 2005. They are committed to financing the related outlays only with grants and concessional loans, and to adopt such a supplementary budget only after they have sought and obtained the agreement of major donors on the magnitude and type of financing so as not to jeopardize external budgetary assistance during 2004.

*In the banking and financial areas*, monetary policy will continue to be set by the common central bank. For Benin, net foreign assets are targeted to increase, reflecting good external sector performance; and credit allocation to the non government sector will rise. The authorities will continue to require compliance with prudential ratios, and will complete the divestiture of the Continental Bank. In the microfinance sector, the government will continue to support the rehabilitation of the largest microfinance institution (FECECAM) and intensify the supervision of the sector

*Regarding structural issues*, the government plans to complete the privatization of the public ginning company (SONAPRA) by end-May 2004 with the assistance of the World Bank. The bidding process for the privatization of the electricity company will be launched in the second half of 2004 and will be completed in the first half of 2005. Likewise, the bidding process for the telecommunications company is scheduled to be launched in the first half of 2004. A feasibility study on the involvement of the private sector in the management of the port of Cotonou is also expected to be launched in the first half of 2004.

A number of other structural measures geared to poverty reduction embodied in the PRSP will be intensified. My authorities are actively involved in updating their PRSP, and the first full annual report of PRSP implementation for 2003 will be available in a very near future.

*Regarding foreign financial assistance*, my authorities are grateful for the generous international community support and they expect to complete negotiations with the remaining Paris Club creditors. Negotiations are ongoing with non Paris Club creditors.

**The way forward:**

The Beninese authorities have carried out their PRGF arrangement approved by the Fund in 2000 successfully. Macroeconomic performance has been strong despite large fluctuations in world market prices for cotton. Fiscal performance has been good and expenditure management has continued to be strengthened. The implementation of structural measures is being enhanced notably in the cotton, public utilities, banking and in other areas with the support of the World Bank and the international community.

Despite the efforts noted above, it would be difficult for Benin to reach the MDGs. Hence, increased donor support would be appreciated. Furthermore, my authorities count on continued Fund engagement in Benin in the areas of both financial and technical assistance.



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### **IMF Completes Review Under Benin's PRGF Arrangement and Approves US\$2 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Benin's economic performance under a SDR 27 million (about US\$40 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see [Press release No. 00/43](#)). The completion of the review enables the release of a further SDR 1.35 million (about US\$2 million), which will bring the total amount drawn under the arrangement to SDR 27 million (about US\$40 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a PRSP. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion on Benin's economic performance, Anne Krueger, Acting Managing Director and Chair, stated:

"Benin's economic activity remained buoyant in 2003, inflation was low, and overall fiscal performance was satisfactory. Measures were taken to improve expenditure management and strengthen the banking sector, and discussions on a new civil service strategy were initiated with the trade unions in the second half of the year. However, the privatization of the public ginning company, a key element of the structural reform agenda, incurred further delays.

"During 2004 the authorities intend to push ahead strongly with the implementation of the poverty reduction strategy that was adopted in December 2002. Emphasis will be on fiscal consolidation, deepening of structural reforms, and increasing poverty-reducing outlays. The budget for 2004 reflects the poverty reduction strategy's priorities, and was prepared with the support of all major donors in an effort to align donor financial assistance to the government budgetary process. It emphasizes strong implementation of action plans aimed at improving tax and customs administration, and continuation of efforts to rein in non-priority current spending and increase the level of execution of priority expenditure. The authorities would need to be cautious about further wage concessions in 2004. Before adopting a supplementary budget to

finance the Junior Pan-African soccer tournament, which Benin will host in 2005, the authorities will seek an agreement with all major donors on the magnitude and financing of the project so that the disbursement of external assistance for 2004 would not be jeopardized.

“The authorities intend to pursue vigorously the structural reform program, which is essential to achieving sustained high economic growth and reducing poverty. To this end, privatization of the public utilities, the public ginning company, and the state-owned bank would need to be implemented in a timely and transparent manner, and a new civil service reform strategy would need to be rapidly defined and adopted.

“Following the completion of their Poverty Reduction Strategy Paper (PRSP) at end-2002, the authorities have begun to deepen their analysis of the poverty situation and strengthen the mechanisms for monitoring and evaluating PRSP implementation. A progress report on the implementation of the PRSP during 2003 is expected to be completed shortly,” Ms. Krueger said.