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Benin: 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Staff Supplements and Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2010 Article IV Consultation with Benin and Request for a Three-Year Arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2010 Article IV consultation and Request for a Three-Year Arrangement under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on March 26, 2010, 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 May 27, 2010. 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.

- Two staff supplements of May 27, 2010 and a staff statement of June 10, 2010 updating information on recent economic developments.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its June 14, 2010, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Benin.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Benin*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

BENIN

Staff Report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement under the Extended Credit Facility

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

Approved by Michael Atingi Ego and Thomas Dorsey

May 27, 2010

Discussions with the Beninese authorities on the 2010 Article IV Consultation and a new arrangement under the Extended Credit Facility (ECF) were held in Cotonou March 10–26, 2010. The mission comprised Messrs. Mongardini (head), Sarr, and Pani, Ms. Lundgren (all AFR), and Ms. Marcelino (FIN). The mission met with President Boni Yayi, Senior Minister Koupaki, Finance Minister Daouda, National Director Koutangni of the Central Bank of West African States (BCEAO), and other senior government officials. The mission also met with representatives of the private sector, civil society, trade unions, and the donor community.

Staff recommends approval of the authorities' request for a three-year ECF arrangement for SDR 74.28 million (120 percent of the quota), based on the attached memorandum on economic and financial policies covering the period 2010–13. The last ECF arrangement in the amount of SDR 24.77 million (40 percent of quota) expired on June 30, 2009. Outstanding Fund credit is SDR 24.77 million.

Benin is an Article VIII country and has no exchange restrictions subject to Fund jurisdiction. The last Article IV consultation was concluded on June 16, 2008.

Benin is a member of the West African Economic and Monetary Union and shares a fixed exchange rate and common external tariffs with other members. Monetary and exchange rate policies are conducted by the BCEAO.

The authors of this report are Messrs. Mongardini, Sarr, Pani, El Harrak, and Mmes. Lundgren, Marcelino, and Luna.

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List of Acronyms

ASYCUDA++	Automated System for Customs Data
BCEAO	Central Bank of West African States
CFAF	*Communauté Financière Africaine* Francs
CPI	Consumer Price Index
DGID	*Direction Générale des Impôts et des Domaines*
DGDDI	*Direction Générale des Douanes et Droits Indirects*
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FNBR	Fonds national des retraites du Bénin
GPRS	Growth and Poverty Reduction Strategy
GSM	Global System for Mobile Communications
HIPC	Highly Indebted Poor Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum on Economic and Financial Policies
OECD	Organization for Economic Cooperation and Development
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SBEE	*Société Béninoise d'Electricité et d'Eau*
SCO	*Société de Ciments d'Onigbolo*
TMU	Technical Memorandum of Understanding
TOFE	*Tableau des Operations Financières de l'Etat*
UGR	*Unité de Gestion de Réformes*
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union

Executive Summary

Recent economic developments and policy response: The global economic crisis halved real GDP growth to 2.7 percent in 2009, compared with 5 percent in 2008. Inflation declined to an average 2.2 percent, reflecting the unwinding of the 2008 food and fuel crisis. The current account balance widened to 10.8 percent of GDP on account of weaker exports and in line with the fiscal deficit. Against the backdrop of lower customs collections, the authorities sought to provide a strong fiscal stimulus in the first half of 2009, but were forced to tighten policies thereafter because of financing constraints. As a result, the overall fiscal deficit more than doubled to 7.3 percent of GDP, financed through additional external donor support, domestic borrowing, and a large carryover of expenditure commitments to 2010. The implementation of structural reforms is moving forward, although with some delays.

Article IV Consultation discussions: The main challenge is to contain the impact of the crisis in the short run while increasing sustainable growth over the medium term to make progress toward the Millennium Development Goals (MDGs). The authorities shared the mission's assessment that maintaining fiscal and debt sustainability and improving external competitiveness is critical to achieving these objectives. It is essential to increase public investment in infrastructure, mainly with external concessional financing; contain nonpriority public expenditure through a global reform of the civil service; and accelerate structural reforms to enhance the business climate.

Elements of the new Extended Credit Facility (ECF) arrangement: The basic primary balance will be gradually reduced during 2010–13 to stabilize the public debt-to-GDP ratio. This adjustment is predicated on further revenue mobilization efforts and a strict limit of recurrent expenditures, which would safeguard fiscal space for priority social and infrastructure spending. The authorities' structural reform agenda will enhance revenue collection, improve public financial management, reform the civil service, and privatize public utilities.

Staff appraisal: Staff supports the authorities' request for a new ECF arrangement. The fiscal program can be achieved only through a strict limit on the wage bill, which can be achieved through the new framework for centralized wage bargaining and multiyear wage contracts. To reach the ambitious growth objectives, speedy implementation of the structural reform agenda is imperative. The main risks to the program come from lack of a government majority in parliament and the 2011 presidential and parliamentary election cycle.

I. BACKGROUND

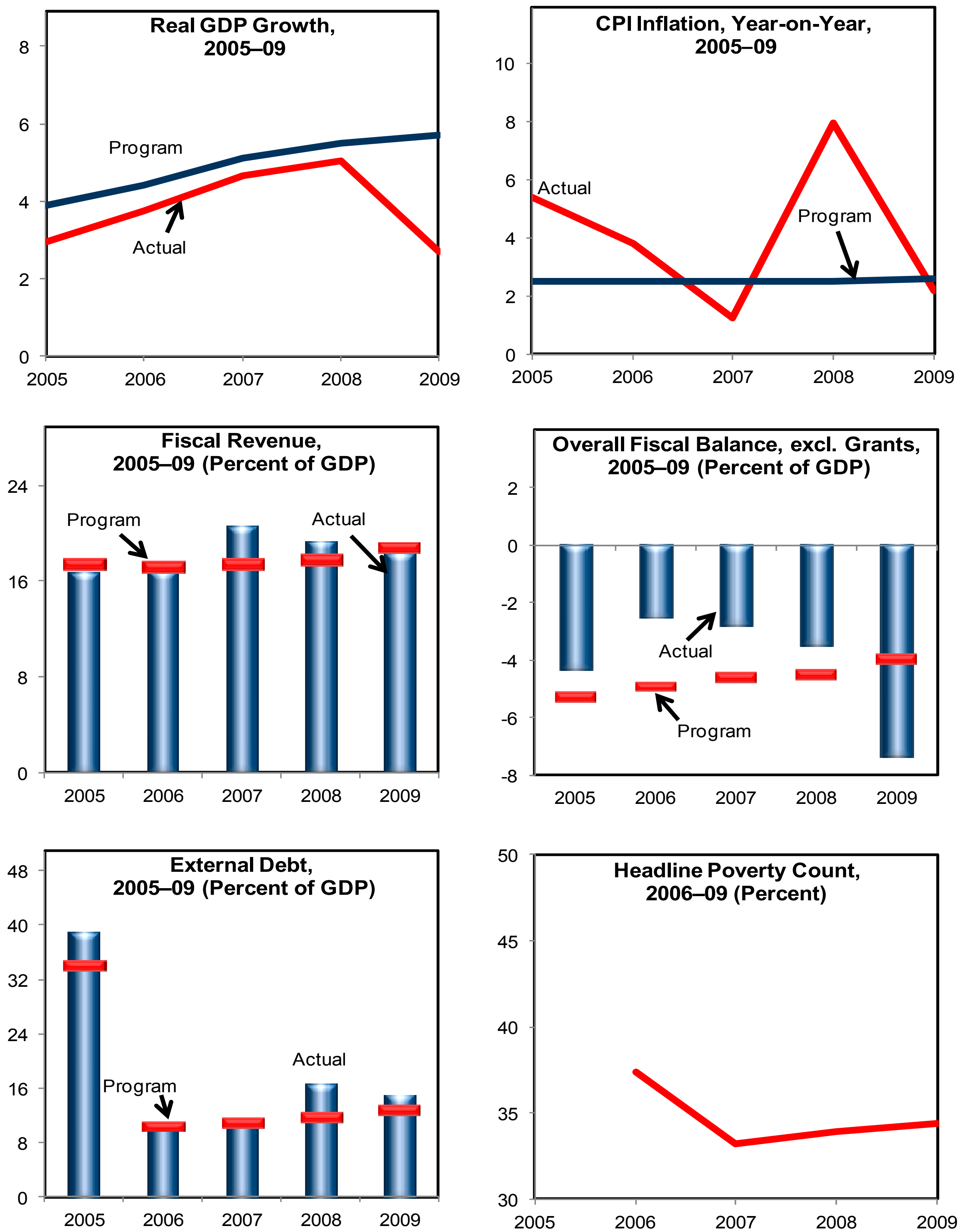
1. **The goal of the last ECF arrangement (2005–09) was to support the authorities' strategy to achieve higher sustainable growth and reduce poverty while preserving macroeconomic stability and reducing vulnerabilities to external shocks.** In pursuit of these objectives, the authorities' program worked to expand the fiscal space for public investment, improve the quality of poverty-reducing spending, and deepen structural reforms to foster an environment conducive to private sector-led growth.

2. **The program achieved most of its objectives** (Figure 1).[1] Aided by debt relief under the enhanced Heavily Indebted Poor Country (HIPC) and the Multilateral Debt Relief Initiative (MDRI), Benin achieved significant improvements in macroeconomic stability. Inflation was gradually reduced below 3 percent, except for the temporary surge associated with the food and fuel crisis in 2008. The stock of external debt was cut by 58 percent to 11.5 percent of GDP in 2006 and has since been kept relatively low with a moderate risk of debt distress. The basic primary balance was kept in surplus throughout the arrangement period (except in 2009) by strengthening revenue mobilization, while preserving the fiscal space for enhanced public investment (6.8 percent of GDP on average throughout the period). The wage bill, however, increased by 67 percent in nominal terms between 2006 and 2009, partly as a result of large increases in wages and other bonuses to civil servants. The overall fiscal deficit was contained below 4.5 percent of GDP (except in 2009), largely financed with external concessional resources. The external current account deficits were large, in part because of the large import component of investment projects. The expected acceleration of economic growth fell short of program objectives, partly because of exogenous shocks. Real GDP growth increased steadily from 2.9 percent in 2005 to 5.0 percent in 2008, notwithstanding the food and fuel crisis. The global economic crisis reversed the growth trend in 2009, when growth was halved to 2.7 percent. Accordingly, the poverty headcount fell only marginally over the arrangement period, from 37.4 percent in 2006 to 34.4 percent in 2009.

3. **The implementation of the structural reform agenda was mixed**. While there was substantial progress in reforming the cotton sector, the reform of the civil service lagged behind. A strategy to improve public financial management was adopted in 2008, and key reforms were implemented in tax and customs administration. Two unmet structural benchmarks from the last ECF arrangement will be completed by the end of 2010.

[1] For details of the previous ECF arrangement, see also Box 1 on page 11 of IMF Country Report No. 09/252, available at: http://www.imf.org/external/pubs/ft/scr/2009/cr09252.pdf

Figure 1. Benin: Macroeconomic Performance Under the Program, 2005–09



Source: Beninese authorities and Fund staff estimates.

4. **At the time of the 2008 Article IV Consultation, Executive Directors called on the Beninese authorities to invigorate the reform process, particularly in the cotton and public utility sectors.** They also urged the authorities to limit the scope and duration of the fiscal measures taken to address the food and fuel crisis, and to improve public expenditure management further. Directors recommended maintaining a prudent borrowing policy and expressed concerns about excessive borrowing in the regional market.

5. **Most of these recommendations have been implemented**:

- **The privatization of the cotton and the public utility sectors has moved forward**. The cotton ginning company was privatized in 2008, a new agency was established for the centralized purchase of fertilizers in March 2009, and a new global strategy to reform the cotton sector was adopted. The concession for the operation of the container terminal of the Port of Cotonou and the majority stake in the cement company were awarded to a strategic private investor in September 2009 and March 2010, respectively. The privatization of Benin Telecom has been launched and completion is expected in the third quarter of 2010. The government intervened to strengthen the financial situation of the state-owned energy company (SBEE) by increasing electricity tariffs twice (in July 2009 and in April 2010) and restructuring SBEE's debt in March 2010.

- **The authorities phased out the temporary fiscal measures adopted in response to the food and fuel crisis**. In July 2008, the government allowed the full pass-through of international food and fuel prices and introduced more targeted measures to protect low-income households.

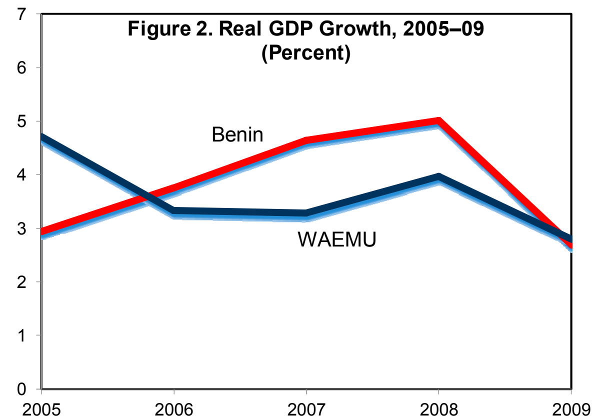
- **The reform of public financial management (PFM) is proceeding with some delays**. A new law on public procurement contracts was adopted in 2009, and recourse to exceptional spending procedures has been reduced. The authorities completed an audit of the PFM information system and adopted a medium-term PFM reform strategy in 2008. The completion of improvements in the information systems of the tax and customs administration has, however, been delayed to the end of 2010, and a one-stop window at the customs department and the Port of Cotonou will not be completed until 2011.

- **Other recommended reforms are moving forward**. The private sector is increasingly involved in the provision of public services, following outsourcing of the operation of the container terminal at the port and the privatization of the wood and cement companies. Second-generation reforms are being introduced to strengthen the judicial and land tenure systems and to expand credit to small and medium enterprises.

- **The authorities have maintained a prudent borrowing policy, relying primarily on external concessional sources**. Borrowing on the regional market surged, however, in 2009, reflecting the need to finance the large fiscal deficit associated with the global economic crisis.

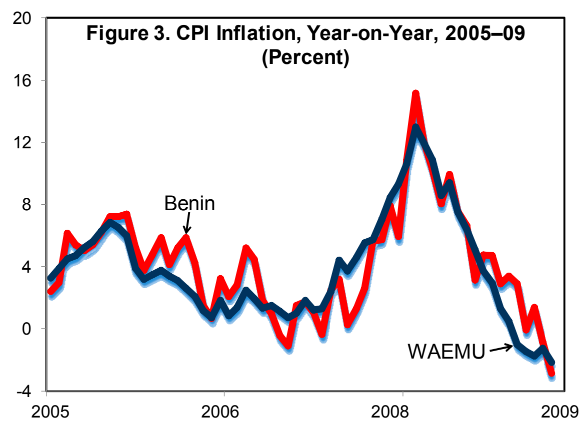
II. Impact of the Crisis and Policy Response

6. **The global economic crisis reduced growth by half in 2009, more than in the other WAEMU countries (Figure 2)**. Lower cotton prices, weaker demand for exports—notably from Nigeria—and lower inflows of foreign direct investment reduced real GDP growth from 5.0 percent in 2008 to 2.7 percent in 2009. The deceleration of activity was aggravated by the decline in cotton production and floods in the south of the country, while noncotton agricultural production and transportation continued to grow, supported by the fiscal stimulus.



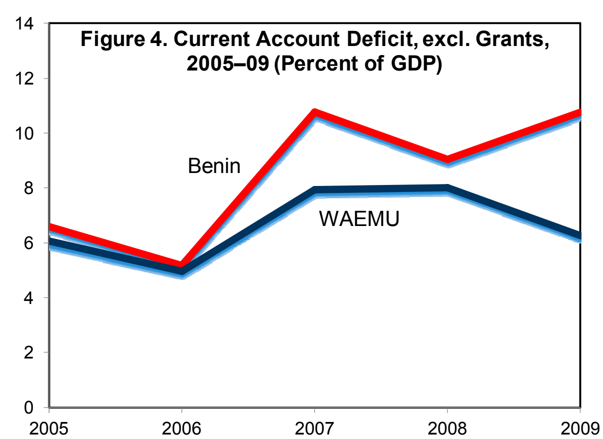
Sources: Beninese authorities and Fund staff estimates.

7. **The decline in international food and fuel prices contributed to easing inflationary pressures in Benin and the rest of the WAEMU region (Figure 3)**. Despite a 13 percent increase in electricity tariffs in July 2009, average CPI inflation declined from 8.0 percent in 2008 to 2.2 percent in 2009, reflecting lower food, transportation, and gasoline prices.



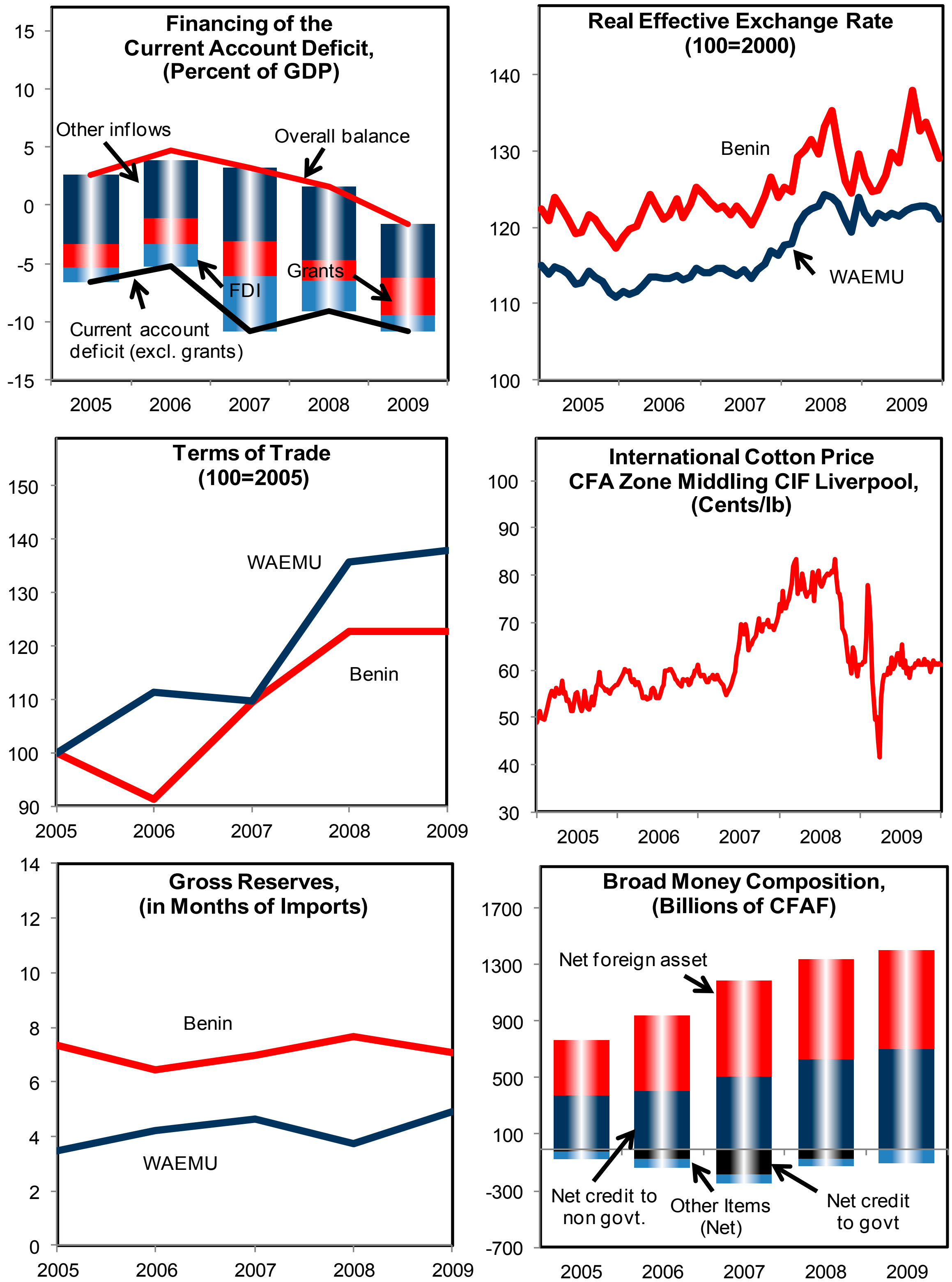
Sources: Beninese authorities and Fund staff estimates.

8. **A sharp decline in transit trade and weaker cotton exports widened the current account deficit (Figures 4 and 5)**. The terms of trade were unchanged, because a decline in international food and energy prices offset the fall in international cotton prices. These developments, accompanied by a decline in foreign direct investment and other flows turned the overall balance of payments into a deficit of 1.6 percent of GDP in 2009. The real effective exchange rate in December 2009 appreciated by 1.1 percent year-on-year.



Sources: Beninese authorities and Fund staff estimates.

Figure 5. Benin: Macroeconomic Performance, 2005–09



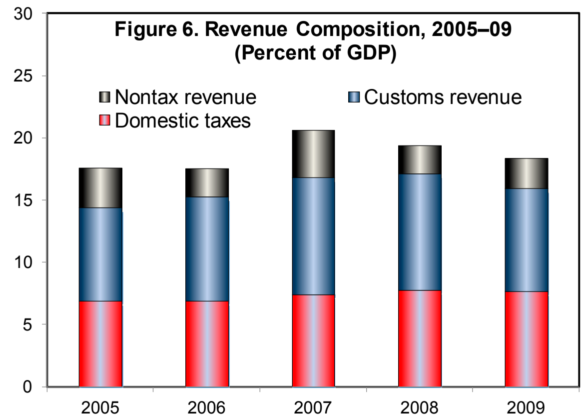
Source: Beninese authorities and Fund staff estimates.

9. **Driven by higher liquidity, broad money expanded in the second half of 2009**. Following the reduction in reserve requirements from 15 to 9 percent in June 2009, banks increased credit to the economy by 11 percent at the end of 2009.

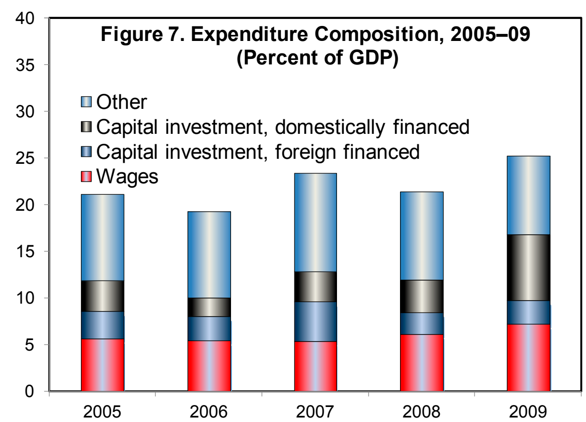
10. **The authorities responded to the crisis by enforcing a strong fiscal stimulus in the first half of 2009, which needed to be reversed in the second half owing to lack of financing.** The stimulus resulted in a large increase in public expenditure, even as revenue declined under weak economic conditions. Despite a partial reversal in the second half of the year, fiscal policy was looser in 2009 compared to 2008; and the fiscal deficit widened.

11. **Total revenue declined by 1 percent of GDP in 2009**, as the deceleration in import growth and the increase in exemptions led to a 7 percent nominal decline in customs receipts. Domestic taxes were in line with program projections.

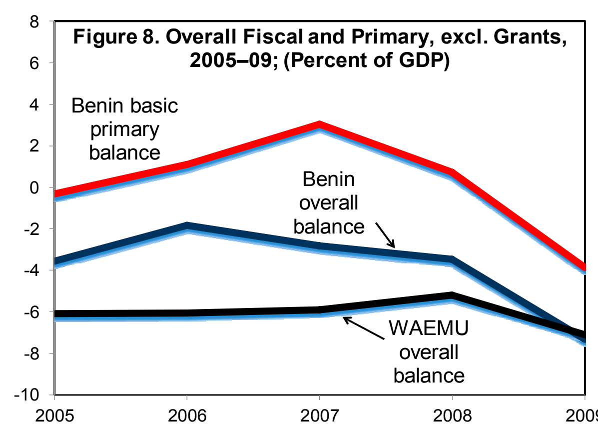
12. **After an unsustainable increase in public spending, a strong adjustment was needed in the second half of 2009 to avoid expenditure arrears**. Large bonuses to civil servants expanded the wage bill by 24 percent in nominal terms. Domestic capital spending doubled in nominal terms from 2008 to 2009 as a result of a surge in investment in the first half of the year, including the carryover of CFAF 113 billion (3.8 percent of GDP) of unfunded expenditure commitments from 2008. This fiscal stimulus produced strains on the Treasury, which were addressed in the



Sources: Beninese authorities and Fund staff estimates.



Sources: Beninese authorities and Fund staff estimates.



Sources: Beninese authorities and Fund staff estimates.

second half of the year by strengthening tax collections, freezing expenditure commitments and new bonuses to civil servants, and enforcing more rigorous controls on expenditure execution.

13. **The overall fiscal deficit more than doubled to 7.3 percent in 2009**. About two-thirds of the deficit was financed from external grants and concessional loans, including the counterpart of the SDR allocation. Additional financing was mobilized on the regional market and through one-off measures, and about CFAF 50 billion (1.4 percent of GDP) of expenditure commitments were carried over into 2010.

III. Article IV Consultation Discussions

14. **The Article IV Consultation discussions focused on policies to enhance growth prospects**. The authorities' main challenge is to contain the impact of the crisis in the short run and achieve higher sustainable growth in the medium term to progress toward the MDGs. The authorities agreed the economy could reach its potential growth rate of 6 percent by 2013, provided appropriate policy measures are adopted.[2]

15. **To achieve this growth, it will be critical to increase investment while maintaining stable macroeconomic conditions**. The mission argued that, if adequate concessional financing can be secured, an annual level of public investment of about 9 percent of GDP over the medium term would be consistent with the country's development needs and absorption capacity constraints. To enhance fiscal and debt sustainability, public investment should be financed primarily with external concessional funds, while the basic primary fiscal balance should gradually be brought to a surplus by mobilizing tax revenue and containing the increase in nonpriority current expenditure. Measures to improve external competitiveness will support the growth objective. PFM reforms to increase the effectiveness of public spending, improve the provision of utilities, and enhance the business climate will increase productivity.

16. **In support of these objectives, the mission discussed with the authorities the results of the updated debt sustainability analysis (DSA) and of the two background papers for the Article IV Consultation**. The updated DSA confirmed earlier results of a moderate risk of debt distress. The two background papers analyze the effect of the wage bill on sustainability of public and external debt and the impact of the composition of expenditure on economic development.

17. **The authorities agreed with the thrust of the mission's analysis and noted its consistency with their Growth and Poverty Reduction Strategy (GPRS)**. The GPRS, which is currently being updated for 2010–14, will achieve a higher sustainable growth rate

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[2] For a discussion of Benin's growth potential, see Benin; Constraints to Growth and Potential for Diversification and Innovation, Country Economic Memorandum, World Bank, June 18, 2009.

and expand employment. The authorities also intend to develop sectoral and local development strategies, encourage the diversification of agriculture, promote female and youth employment, and strengthen social protection and the legal rights of the poor.

A. The Macroeconomic Impact of Public Wage Policies

18. **The mission presented the results of a study showing that, if the wage bill continued to increase in line with recent trends, it would compromise debt and fiscal sustainability by generating excessive deficits or by crowding out growth-enhancing public investment**.[3] From 2000 through 2009, the wage bill in Benin grew at an average real annual rate of 9.6 percent, compared to an average real GDP growth of 4.2 percent. From 2007 to 2009, wage bill growth accelerated to an average real rate of 14.7 percent. This growth was driven by an increase in allowances and bonuses to civil servants. If these trends persist and if the growth in the total wage bill were accommodated by a corresponding increase in total expenditure, the overall fiscal deficit would widen by 6½ percentage points to 10 percent of GDP by 2015. If instead total spending and the corresponding fiscal deficit were maintained at the level projected under the authorities' program, there is a risk that spending on wages crowds out public investment, with an adverse impact on long-term growth. In this case, fiscal and debt sustainability would be compromised in the long run. Taking into account population growth and the intent to make progress toward the MDGs, there will be limited scope for increasing civil service wages without corresponding increases in civil service productivity.

19. **The second study by the mission suggests that excessive wage increases for civil servants could result in lower growth, more unemployment, and larger income disparities in Benin**.[4] This study estimates the macroeconomic impact of alternative decisions in the allocation of public expenditure between wages and public investment under two scenarios. In the first, the overall expenditure envelope is unchanged compared with the authorities' program, and public expenditure is merely reallocated between wages and public investment. In the second scenario, an increase in expenditure financed by additional external grants is used either to increase civil servant wages or to increase investment. The study shows that, under both scenarios, an increase in civil servant wages would depress growth, increase unemployment, and widen income disparities, reflecting the likely spillovers of public sector wages onto the private sector. At the root of these effects is the use of civil service wages as a benchmark for wage negotiations in the formal private sector; a public wage increase thus increases labor costs in the private sector and thereby reduces private

[3] See Lundgren, Charlotte, "Wage Policy and Fiscal Policy in Benin,", Africa Departmental Paper No. 10/01, available at http://www.imf.org/external/pubs/ft/dp/2010/afr1001.pdf.

[4] See Pani, Marco and Mohamed El Harrak, "Benin: Expenditure Composition and Economic Development", African Departmental Paper No. 10/02, available at http://www.imf.org/external/pubs/ft/dp/2010/afr1002.pdf.

labor demand and investment. By comparison, an increase in public investment increases productivity and thereby encourages investment, employment, and growth.

20. **Based on these studies, the mission emphasized that limiting growth of the public wage bill over the medium term is essential to preserving fiscal and debt sustainability and improving competitiveness**. These objectives could be achieved by following the mission's earlier recommendations of implementing a new institutional framework for centralized wage bargaining and introducing multiyear labor contracts for civil servants. These measures should reduce pressures on the wage bill by eliminating successive rounds of wage negotiations and by linking wage increases to available budgetary resources over the medium term. Increases in public wage bills also reduce unit labor cost competitiveness, given their influence on private wages.

21. **The authorities acknowledged the importance of containing growth in the wage bill but underlined that implementing this policy will be difficult politically**. They noted that labor unions are intensifying their wage demands ahead of the 2011 presidential and legislative elections, with key categories of employees, including teachers and health care workers, engaging in prolonged strikes. They underscored that the main challenge in this area is to maintain wage restraint without compromising social peace and to ensure adequate provision of essential public services. They shared the mission's view that the move toward centralized wage bargaining should facilitate progress in this direction by preventing concessions to one sector from triggering new demands from other sectors. They also noted that, from now on, civil servants will not be paid for strike days.

22. **The mission encouraged the authorities to undertake a broader reform of the civil service**. Although the need to contain the budgetary costs may be the most pressing concern, a comprehensive civil service reform is needed to increase efficiency in the provision of public services and better target the government's human resources toward priority sectors. Essential in this respect is the ability to attract, retain, and motivate well-qualified civil servants. The ongoing study of the civil service remuneration system, commissioned by the authorities, will provide detailed information on the use of the wage bill and the actual remuneration for different staff categories.

23. **The authorities agreed that a comprehensive civil service reform is needed to establish a prodevelopment administration**. They committed to adopting a comprehensive reform strategy based on the study recommendations by June 2011.

B. External Sustainability and Competitiveness

24. **Benin's external sustainability assessment and survey-based indicators point to an erosion of competitiveness in 2009**. The real effective exchange rate (REER) is overvalued by 13–22 percent at the end of 2009 (Figures 9–11). These results are consistent with the assessment in the 2010 Article IV Consultation for the WAEMU region and confirm the importance of pursuing prudent policies and accelerating structural reforms.

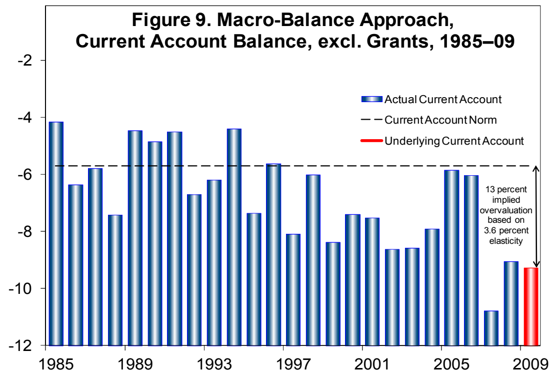

Figure 9. Macro-Balance Approach, Current Account Balance, excl. Grants, 1985–09

Sources: Beninese authorities and Fund staff estimates.

25. **Business climate indicators also highlight a loss of competitiveness.** In the last four years, Benin moved down to the bottom 10th and 20th percentiles of all countries surveyed by the World Bank and the World Economic Forum, respectively; and ranked among the least competitive countries in the WAEMU region in 2010.

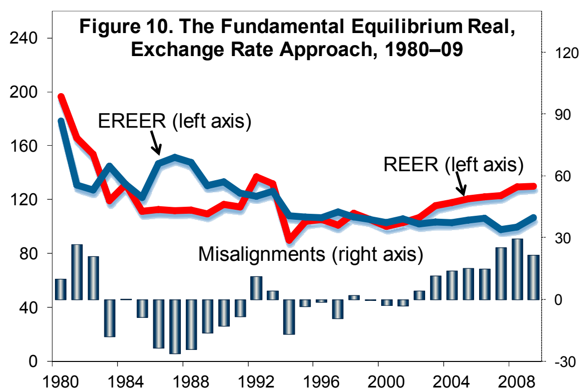

Figure 10. The Fundamental Equilibrium Real, Exchange Rate Approach, 1980–09

Sources: Beninese authorities and Fund staff estimates.

26. **The authorities shared the mission's concerns about the erosion of competitiveness and the overvaluation of the real exchange rate, which could jeopardize Benin's growth potential**. They restated their commitment to improve external competitiveness and the business climate. To this effect, fiscal policy is being tightened, and an ambitious structural reform agenda is being implemented aimed at reducing the cost of doing business in Benin. The authorities confirmed that Benin had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction.

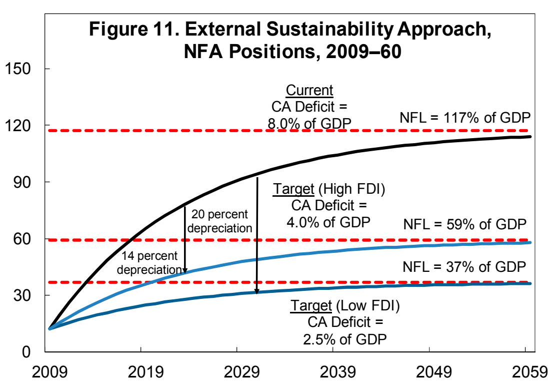

Figure 11. External Sustainability Approach, NFA Positions, 2009–60

Sources: Beninese authorities and Fund staff estimates.

C. Health of the Financial Sector

27. **Commercial banks' asset quality has improved**. The ratio of nonperforming loans declined from 9.2 percent in 2008 to 8.1 percent in 2009, and the capital adequacy ratio of the

five largest banks (holding 79 percent of deposits) was constant at about 11.6 percent during the period. Banks indicated that performance of their loan portfolios had suffered from government payment delays earlier in 2009, but the situation had recently improved.

28. **The authorities expect the capital of banks to strengthen significantly in 2010, in line with new WAEMU requirements**. Most banks have already submitted plans to comply with the new own capital requirement of CFAF 5 billion.

29. **The mission urged the authorities to implement prompt corrective actions to ensure that all banks comply with prudential regulations**. Four banks continue to have negative capital, two of which hold more than 5 percent of bank deposits. The planned Financial Sector Assessment Program (FSAP) mission in the second half of 2010 could help the authorities strengthen their supervisory framework.

30. **The authorities are closely following banks that do not meet the prudential requirements**. One of these banks, with a severe capital deficiency, has been put under provisional administration. The authorities have delayed withdrawing the bank's license and granted it six months to implement corrective measures. Prudential ratios indicate that the liquidity condition of the bank is comfortable, and the provisional administrator will shortly determine the necessary increase in shareholders' capital and other corrective measures.

31. **The mushrooming of unlicensed microfinance institutions poses potential risks to the whole sector**. The mission learned of a number of unlicensed microfinance institutions offering unrealistically high deposit rates, possibly amounting to "Ponzi-type" schemes. These institutions are reportedly attracting deposits away from commercial banks. The mission alerted the authorities to the risks of these operations and urged the authorities to ensure that all operating microfinance institutions are licensed and properly supervised.

32. **The authorities reassured the mission that they had informed the judicial system of certain unauthorized microfinance institutions**. They indicated that they would intervene if and when necessary to protect depositors and would strengthen the licensing and supervision of all microfinance institutions.

IV. THE NEW ECF ARRANGEMENT

33. **Building on lessons learned from the previous arrangement, the authorities' proposal for the new three-year ECF arrangement will maintain macroeconomic stability and accelerate structural reforms to contain the negative impact on Benin of the global economic crisis in the short run and increase sustainable growth over the medium term**. In this context, the program will:

- Raise annual real GDP growth from 3.2 percent in 2010 to 6 percent by 2013,

- Hold inflation below the WAEMU convergence criterion of 3 percent, and

- Reduce the external current account deficit to 7 percent of GDP by 2013.

The pursuit of these objectives will be supported by containment of domestic demand through a prudent fiscal policy and a moderate WAEMU regional monetary policy under the fixed peg with the euro (with broad money projected to increase by 5.4 percent in 2010). The fiscal anchor of the program is to stabilize the total public debt to GDP ratio at around 25 percent of GDP over the medium term.

34. **Fiscal policy will preserve debt sustainability, by:**

- Increasing the **basic primary fiscal balance** through a stronger mobilization of revenue and a more rigorous management of public expenditure (Memorandum on Economic and Financial Policies [MEFP], ¶15). Tax revenue will be increased from 16.0 percent of GDP in 2009 to 19.3 percent of GDP by 2013 through reforms in tax policy and administration (MEFP ¶16). Public expenditure will be kept at about 26 percent of GDP, while improving public expenditure management and containing the growth of the public wage bill (MEFP ¶17–19). The authorities plan to develop a tracking system for priority expenditures (MEFP ¶28). Staff expects to be able to track priority spending starting with the 2011 budget.

- Financing the overall fiscal deficit primarily through **external concessional sources** (MEFP ¶20). The proposed ECF arrangement is expected to play a catalytic role, facilitating the mobilization of new budget support. Notwithstanding the new Fund policy on debt limits for low-income countries, the authorities do not plan to borrow on nonconcessional terms for the time being.

35. **These measures will create fiscal space for growth-enhancing priority expenditure (MEFP ¶15)**. Public investment will be kept at about 9 percent of GDP annually throughout the period, and its effectiveness will be enhanced by improving the selection and monitoring of projects, and strengthening transparency and accountability in public procurement contracts. The use of exceptional payment procedures outside the expenditure chain will be strictly limited and monitored as an indicative target under the program.

36. **Monetary policy conducted by the regional central bank will continue to be consistent with the objective of price stability**. The BCEAO will continue to use interest rate policy to keep inflation under control and maintain a comfortable level of official international reserves (MEFP ¶35).

37. **The program will be supported by structural reforms to strengthen external competitiveness and improve the business climate (MEFP ¶21)**. These reforms will improve the mobilization of revenue, and the quality and efficiency of public expenditure, enhancing transparency and accountability in public financial management, widening the role of the private sector, and modernizing the public administration. The authorities also plan to introduce "second generation" reforms to improve land registration and property

rights and the financial and judiciary systems (MEFP ¶12). Microfinance supervision will be strengthened, and more resources will be devoted to encouraging youth entrepreneurship in agriculture and the establishment of small and medium enterprises (MEFP ¶27).

A. Fiscal Policy in 2010

38. **Fiscal policy will support the economic recovery in 2010, while preserving fiscal and debt sustainability.** Economic activity is expected to remain subdued. Real GDP growth is projected to pick up marginally from 2009 to 3.2 percent of GDP as demand for exports remains anemic amid persistent uncertainties on the external economic outlook, most notably from Nigeria.

39. **The 2010 budget, while based on optimistic projections, will have more prudent assumptions**. The authorities cannot muster political support in parliament to adopt a supplementary budget, but have committed to executing the budget in accordance with the fiscal projections agreed to with Fund staff. Starting with the 2011 budget, they will present the draft budget law to parliament in line with the Fund-supported program (MEFP ¶18).

40. **Government revenue is projected to rebound in 2010**. Improvements in tax administration, selected tax increases, and the planned sale of three third-generation Global System for Mobile (GSM) Communication licenses are projected to boost revenue to 20.6 percent of GDP (MEFP ¶30). Public expenditure will increase as a share of GDP and thus continue to provide a stimulus to the economy. The increase in the wage bill will be limited to 7.7 percent in nominal terms, reflecting wage concessions already granted to the education sector in early 2010. Expenditure on transfers and purchases of goods and services will increase by 0.5 percent of GDP. Capital spending will be maintained in line with the 2009 level by mobilizing more concessional financing from donors. The domestically financed portion of capital spending also includes the CFAF 50 billion (1.4 percent of GDP) in expenditure carryover from 2009, thus ensuring that all expenditure commitments are financed in 2010 (MEFP ¶32–33).

41. **A smaller deficit will strengthen debt sustainability**. The basic primary deficit is projected to be reduced by 3.5 percentage points to 0.3 percent of GDP. The overall deficit will decline less (1.4 percent of GDP), reflecting more external financing of investment (MEFP ¶34). The deficit will be financed primarily with external concessional budget support. The World Bank approved a $30 million Poverty Reduction Support Credit (PRSC)-6 credit in April 2010. In addition, the African Development Bank, the EU, and the French government have committed CFAF 22.2 billion (0.7 percent of GDP) in additional budget support. The authorities will cover the remaining financing gap with additional assistance from multilateral and bilateral donors, and the proposed ECF arrangement. Staff expects the program to be fully financed.

42. **Privatization proceeds will be saved, pending discussions with Fund staff on their use (MEFP ¶23)**. These include CFAF 17.5 billion (0.5 percent of GDP) from the sale

of shares of the cement company (Société de Ciments d'Onigbolo) received in March 2010, and the proceeds from the forthcoming privatization of Benin Telecom. The authorities agreed on the principle that these resources should be used to finance investment projects with a high social rate of return.

43. **Preliminary data indicate that fiscal performance through the first quarter of 2010 was broadly in line with program projections**. Income tax receipts were CFAF 1.1 billion higher than targeted and helped offset part of the shortfall in customs collections (CFAF 6.6 billion). Primary expenditure was in line with program projections, thus keeping the basic primary balance to a small deficit of CFAF 6.2 billion (0.2 percent of GDP). The authorities cleared all end-2009 outstanding bills by March 2010, leading to an overall cash deficit (excluding grants) of CFAF 62.5 billion (1.9 percent of GDP).

B. Structural Reforms

44. **Fiscal reforms in 2010 will improve revenue collection and public financial management**. Legislation will be introduced to establish a personal income tax, which will expand the tax base. The authorities also intend to introduce a more favorable tax regime for private savings and small and medium enterprises. Moreover, the tax and customs administration will be strengthened by coordinating the tax collection agencies, reinforcing their inspection capacity, refining the targeting of controls, and enhancing the use of information technologies (MEFP ¶16). The new public procurement code will be fully implemented (MEFP ¶19). The organic budget law will be revised in line with WAEMU guidelines. Program budgeting will be extended to all branches of public administration and controls at all levels of budget implementation will be improved (MEFP ¶18).

45. **The authorities called for bids for the implementation of the one-stop window at the Port of Cotonou in May 2010**. The new system will modernize the clearance process through the port and increase transparency in port and customs operations. The one-stop window is expected to be completed by the end of 2010 for the Port of Cotonou and to be extended to the customs department by June 2011.

46. **The privatization of a majority stake of Benin Telecom to a strategic investor will be completed by the third quarter of 2010**. An additional six percent of the company will be sold to domestic investors.

47. **A global strategy will be adopted in 2011 to reform the civil service. It will include a comprehensive revision of the remuneration system**. Measures to improve the actuarial balance of the pension fund will also be implemented (MEFP ¶17, ¶25).

48. **The restructuring of the state-owned electricity company, SBEE, is underway with a plan to launch its privatization by the end of 2011 (MEFP ¶22)**. Ahead of the privatization, the authorities plan to implement a regulatory framework for the electricity sector, including a transparent system for determining electricity tariffs.

C. Access, Disbursements, and Program Monitoring

49. **The proposed access level for the three-year arrangement is 120 percent of quota, equivalent to SDR 74.28 million**. It aligns with the ECF norm for a country like Benin with less than 100 percent of the quota outstanding (Table 6). The proposed access would be disbursed in seven equal semiannual disbursements (Table 7). SDR 10.62 million would become available after Board approval of the arrangement.

50. **The program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks (MEFP Tables 1 and 2)**. The latter are in areas that are macrocritical and related to the Fund's area of expertise. The indicative target on the public wage bill under the previous ECF arrangement has been dropped. Performance under the program will be monitored with semiannual reviews.

D. Risks and Safeguards

51. **The lack of a government majority in parliament and the 2011 election cycle are the largest risks to program implementation**. Other risks are related to: (1) trade union pressures for public wage increases, which could endanger fiscal sustainability; (2) uncertainties about the pace of recovery; and (3) weaker-than-anticipated donor support.

52. **Safeguards are in place to ensure the appropriate use of Fund resources and the authorities' capacity to repay**. The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The upcoming implementation (2010) of the Institutional Reform of the WAEMU and the BCEAO should help correct that situation. Efforts to fully implement the International Financial Reporting Standards reporting framework should also be pursued. Benin's capacity to repay the Fund is sound (Table 6).

V. Staff Appraisal

53. **The global economic crisis continues to affect Benin adversely**. Following a sharp deceleration in 2009, growth is projected to be weak in 2010. The medium-term outlook is more favorable, provided the authorities continue to implement prudent macroeconomic policies and their ambitious structural reform agenda. Continued support from the international community in support of the authorities' objectives will be essential for Benin to make further progress toward the MDGs.

54. **The main macroeconomic challenge ahead is to mitigate the impact of the crisis in the short term, while reaching higher sustainable growth over the medium term**. For 2010, there is still scope for extending fiscal support to the economy. However, over the medium-term, a marked fiscal adjustment should be enforced to preserve fiscal and debt

sustainability. In particular, the growth of the public wage bill should be limited to preserve fiscal space for priority spending to support growth and poverty alleviation.

55. **The government's economic program is geared properly to pursue these objectives**. The planned medium-term fiscal adjustment will strengthen fiscal and debt sustainability while leaving adequate fiscal space for priority social and investment expenditure. The structural reform agenda will facilitate this adjustment by strengthening revenue collection and public financial management, and accelerate growth by improving external competitiveness and the business climate.

56. **A prudent implementation of the 2010 budget in line with the program is essential to sustaining the fiscal position**. The public wage bill should be limited to the program projections by adhering to the new framework for centralized wage bargaining and moving toward multi-year wage contracts. The authorities' intention to save the privatization proceeds and use them, after consultation with Fund staff, to finance projects with a high social rate of return is welcome. Future draft budgets should align with the program in order to avoid large unfunded expenditure carryovers and to increase budget transparency.

57. **The structural reform agenda is appropriately ambitious**. The implementation of the one-stop window at the Port of Cotonou promises to increase customs collections significantly and improve transparency in port operations. Civil service reform will provide a critical contribution to reorienting the public administration in favor of economic development. In addition, the implementation of a regulatory framework for the electricity sector, including an automatic tariff adjustment mechanism, will pave the way for the privatization of the electricity company.

58. **On this basis, and given satisfactory performance under the previous arrangement, staff supports the authorities' request for a new ECF arrangement**. The arrangement will provide essential financial support to cover the temporary imbalances associated with the implementation of the authorities' economic program by catalyzing additional concessional assistance from other donors. Risks to program implementation are sizeable and mainly related to the election cycle. Program conditionality, however, has been designed to mitigate these risks going forward.

59. **It is proposed that the next Article IV consultations with Benin be held on a 24 month cycle, subject to the decision on consultation cycles in program countries**.

Table 1. Benin: Selected Economic and Financial Indicators, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.			Projections			
	(Annual percentage change, unless otherwise indicated)								
National income									
GDP at current prices	7.4	12.6	4.8	5.4	6.8	7.7	8.3	8.3	8.3
GDP at constant prices	4.6	5.0	2.7	3.2	4.4	5.5	6.0	6.0	6.0
GDP deflator	2.6	7.2	2.0	2.1	2.2	2.2	2.2	2.2	2.2
Consumer price index (average)	1.3	8.0	2.2	2.5	2.8	2.8	2.8	2.8	2.8
Consumer price index (end of period)	0.3	9.9	-2.9	2.8	2.8	2.8	2.8	2.8	2.8
Central government finance									
Revenue	26.1	6.1	-0.9	18.4	5.9	10.4	10.2	8.4	8.2
Expenditure and net lending	29.9	10.0	17.6	8.8	5.1	6.6	5.9	7.5	8.0
Money and credit									
Net domestic assets [1]	-0.9	25.5	7.1	3.1	6.0	6.3	6.5	6.5	6.1
Domestic credit [1]	-1.4	24.3	12.3	3.1	6.0	6.3	6.5	6.5	6.1
Net claims on central government [1]	-14.4	11.4	6.6	-0.4	0.6	-0.4	-2.6	-2.5	-2.4
Credit to the nongovernment sector [1]	13.0	12.9	5.7	3.6	5.3	6.7	9.0	9.0	8.5
Broad money	17.7	28.8	6.2	5.4	6.8	7.7	8.3	8.3	8.3
Velocity (GDP relative to average M2)	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8
External sector (in terms of CFA francs)									
Exports of goods and services	34.8	17.9	-9.1	3.3	7.5	9.2	10.3	10.4	10.4
Imports of goods and services	47.8	7.5	1.1	1.1	2.2	7.4	7.9	8.1	8.4
Nominal effective exchange rate (minus = depreciation)	2.6	1.8	-2.0	…	…	…	…	…	…
Real effective exchange rate (minus = depreciation)	0.8	5.0	1.1	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)								
Basic ratios									
Gross investment	21.4	20.8	24.8	25.1	24.4	24.9	25.1	25.7	26.4
Government investment	7.5	5.8	9.6	9.7	8.8	8.8	8.5	8.6	8.8
Nongovernment investment	13.9	14.9	15.2	15.4	15.6	16.1	16.6	17.0	17.6
Gross domestic saving	5.9	7.5	10.3	11.5	12.2	12.9	13.5	14.5	15.5
Government saving	3.9	1.7	1.7	3.2	2.5	3.3	4.0	4.3	4.6
Nongovernment saving	2.0	5.8	8.6	8.3	9.6	9.6	9.5	10.1	10.9
Gross national saving	11.3	12.8	16.3	17.2	16.7	17.6	18.1	18.9	19.8
Central government finance									
Revenue	20.6	19.4	18.4	20.6	20.5	21.0	21.3	21.3	21.3
Expenditure and net lending	23.4	22.9	25.7	26.5	26.1	25.8	25.2	25.1	25.0
Primary balance [2]	-1.2	-3.1	-6.8	-5.1	-4.7	-4.1	-3.3	-3.2	-3.2
Basic primary balance [3]	3.1	0.7	-3.8	-0.3	0.1	0.7	1.5	1.6	1.5
Overall fiscal deficit (payment order basis, excl. grants)	-2.8	-3.5	-7.3	-5.9	-5.6	-4.8	-3.9	-3.7	-3.7
Overall fiscal deficit (cash basis, excluding grants)	-3.4	-7.4	-9.1	-6.4	-6.1	-5.2	-4.3	-4.0	-4.0
Debt service (after debt relief) in percent of revenue	7.9	2.9	3.7	4.3	4.6	4.3	4.1	3.4	2.9
Total government debt	15.4	24.5	26.2	24.9	24.8	24.5	24.6	24.6	24.7
External sector									
Trade balance	-14.3	-13.6	-14.1	-14.4	-13.2	-12.8	-12.4	-12.0	-11.7
Current account balance (including grants)	-10.1	-8.0	-8.5	-7.9	-7.7	-7.3	-7.0	-6.8	-6.6
Current account balance (excluding grants)	-10.8	-9.0	-10.8	-9.7	-8.3	-7.9	-7.6	-7.3	-7.1
Overall balance of payments	3.2	1.6	-1.6	-0.1	-0.3	0.3	0.6	0.8	1.0
Debt-service to exports ratio	9.6	3.2	4.5	5.9	6.2	5.9	5.6	4.6	3.8
Debt-to-GDP (post MDRI)	11.7	16.7	15.1	16.0	17.4	18.5	19.5	20.3	21.1
Nominal GDP (in billions of CFA francs)	2,658.1	2,992.6	3,136.1	3,305.2	3,529.0	3,802.4	4,117.0	4,458.4	4,828.9
CFA francs per U.S. dollar (period average)	479.3	445.5	470.0	…	…	…	…	…	…
Population (in millions)	8.9	9.1	9.4	9.6	9.9	10.2	10.5	10.8	11.1
Nominal GDP per capita (in U.S. dollars)	624.8	736.2	711.3	770.1	795.6	828.9	867.1	905.3	945.2

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

[1] In percent of beginning-of-period broad money

[2] Total revenue minus all expenditure, excluding interest due.

[3] Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.

Table 2 . Benin: Consolidated Central Government Operations, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.			Projections			
					(Billions of CFAF)				
Total revenue	548.0	581.3	575.8	681.9	721.9	797.2	878.4	951.8	1,029.4
Tax revenue	446.7	512.2	500.4	575.6	647.9	718.1	796.4	865.6	935.3
Tax on international trade	250.1	278.9	259.3	299.7	340.2	384.9	433.4	470.3	507.5
Direct and indirect taxes	196.6	233.3	241.2	275.8	307.7	333.2	363.0	395.4	427.8
Nontax revenue	101.3	69.1	75.4	106.3	74.0	79.1	82.0	86.1	94.0
Total expenditure and net lending	622.4	684.7	805.4	876.0	920.5	981.2	1039.2	1117.1	1,206.8
Current expenditures	423.8	465.1	490.4	555.1	610.1	646.0	687.8	731.6	780.2
Current primary expenditures	381.6	454.8	474.8	530.4	578.9	616.1	661.1	707.2	756.6
Wages	143.1	182.4	225.9	243.2	270.0	280.5	297.3	315.2	334.1
Pensions and scholarships	34.3	36.0	39.8	48.4	54.0	58.7	63.9	67.7	71.7
Transfers and current expenditures	204.3	236.4	209.1	238.8	254.9	277.0	299.9	324.3	350.8
Current transfers	106.1	119.3	110.0	120.0	128.1	139.4	151.0	163.5	177.1
Other current expenditure	98.1	117.0	99.2	118.8	126.8	137.5	148.9	160.8	173.7
Interest	42.2	10.3	15.6	24.6	31.2	29.9	26.7	24.5	23.6
Internal debt	0.0	5.6	7.4	15.2	21.1	18.6	14.6	11.5	9.5
External debt	42.1	4.8	8.2	9.4	10.2	11.2	12.1	13.0	14.1
Capital expenditures and net lending	198.6	219.5	315.1	320.9	310.3	335.2	351.4	385.5	426.6
Investment	198.4	174.7	302.3	320.9	310.3	335.2	351.4	385.5	426.6
Financed by domestic resources	85.2	105.3	221.6	161.9	140.9	152.6	153.7	173.4	199.0
Financed by external resources	113.2	69.4	80.7	159.0	169.4	182.6	197.7	212.1	227.6
Net lending (minus = reimbursement)	0.2	44.8	12.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-74.4	-103.4	-229.6	-194.1	-198.5	-184.0	-160.8	-165.3	-177.5
Basic primary balance [1]	81.1	21.2	-120.6	-10.5	2.1	28.4	63.6	71.3	73.7
Primary balance	-32.2	-93.1	-214.0	-169.5	-167.3	-154.1	-134.1	-140.8	-153.8
Change in arrears	-30.9	-16.4	-28.3	-17.4	-15.0	-15.0	-15.0	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-30.9	-16.4	-28.3	-17.4	-15.0	-15.0	-15.0	-15.0	-15.0
Payments during complementary period/float [2]	14.7	-102.8	-26.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-90.6	-222.6	-284.7	-211.5	-213.5	-199.0	-175.8	-180.3	-192.5
Financing	61.9	219.2	288.1	187.3	180.8	179.4	162.6	174.2	190.4
Domestic financing	-95.9	109.8	145.5	-15.3	1.1	-13.1	-44.6	-47.1	-47.8
Bank financing	-131.7	128.5	80.0	-5.6	8.9	-5.3	-40.4	-42.9	-43.6
Net use of Fund resources	0.6	8.4	7.4	0.0	-0.1	-0.3	-0.4	-2.9	-3.6
Disbursements	0.6	8.4	7.4	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.4	-2.9	-3.6
Other	-132.4	120.1	72.6	-5.6	9.0	-5.0	-40.0	-40.0	-40.0
Nonbank financing	35.9	-18.7	65.5	-9.7	-7.7	-7.7	-4.2	-4.2	-4.2
Privatization	4.1	4.7	17.9	20.0	10.0	10.0	0.0	0.0	0.0
Restructuring	0.7	-11.7	-12.9	-12.0	0.0	0.0	0.0	0.0	0.0
Other	31.1	-11.8	60.6	-17.7	-17.7	-17.7	-4.2	-4.2	-4.2
External financing	157.8	109.3	142.6	202.6	179.6	192.5	207.3	221.3	238.2
Project financing	113.2	69.4	80.7	159.0	169.4	182.6	197.7	212.1	227.6
Grants	60.6	21.6	28.8	85.0	90.4	97.4	105.5	114.3	123.8
Loans	52.6	47.7	52.0	74.0	79.0	85.1	92.2	97.8	103.8
Amortization due	0.0	-8.3	-9.4	-17.0	-22.7	-23.0	-23.3	-16.7	-12.3
Program aid	44.6	48.3	71.3	60.6	32.9	32.9	32.9	25.9	22.9
Grants	18.3	30.4	71.3	60.6	22.9	22.9	22.9	22.9	22.9
Loans	26.3	17.9	0.0	0.0	10.0	10.0	10.0	3.0	0.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap / statistical discrepancy	28.7	3.4	-3.5	24.3	32.8	19.6	13.2	6.1	2.1
				(In percent of GDP, unless otherwise indicated)					
Memorandum items:									
Total revenue and grants	23.6	21.2	21.5	25.0	23.7	24.1	24.5	24.4	24.4
Grants	3.0	1.7	3.2	4.4	3.2	3.2	3.1	3.1	3.0
Revenue	20.6	19.4	18.4	20.6	20.5	21.0	21.3	21.3	21.3
Total expenditure	23.4	21.4	25.3	26.5	26.1	25.8	25.2	25.1	25.0
Of which: wage bill	5.4	6.1	7.2	7.4	7.7	7.4	7.2	7.1	6.9
Of which: capital expenditure	7.5	5.8	9.6	9.7	8.8	8.8	8.5	8.6	8.8
Expenditure carryover (in billions of CFA francs) [3]	…	113.2	50.0	…	…	…	…	…	…
(in percent of GDP) [3]	…	3.8	1.6	…	…	…	…	…	…
Total loan disbursement	3.0	2.2	1.7	2.2	2.5	2.5	2.5	2.3	2.2
Total grant disbursement	3.0	1.7	3.2	4.4	3.2	3.2	3.1	3.1	3.0
Overall balance (payment order basis, excl. grants)	-2.8	-3.5	-7.3	-5.9	-5.6	-4.8	-3.9	-3.7	-3.7
Overall balance (payment order basis, incl. grants)	0.2	-1.7	-4.1	-1.5	-2.4	-1.7	-0.8	-0.6	-0.6
Primary balance	-1.2	-3.1	-6.8	-5.1	-4.7	-4.1	-3.3	-3.2	-3.2
Basic primary balance [1]	3.1	0.7	-3.8	-0.3	0.1	0.7	1.5	1.6	1.5
Current balance	4.7	3.9	2.7	3.8	3.2	4.0	4.6	4.9	5.2
GDP (in billions of CFA francs)	2,658.1	2,992.6	3,136.1	3,305.2	3529.0	3802.4	4117.0	4458.4	4,828.9

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

[1] Total receipts (excl. grants) minus total expenditure, excluding investment expenditure financed from external sources and accrued interest.
[2] Payment orders whose payment has been postponed to the following period.
[3] Expenditure committed during the year whose payment has been carried over into the following year.

Table 3. Benin: Consolidated Central Government Operations, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.	Projections					
				(Percent of GDP)					
Total revenue	20.6	19.4	18.4	20.6	20.5	21.0	21.3	21.3	21.3
Tax revenue	16.8	17.1	16.0	17.4	18.4	18.9	19.3	19.4	19.4
Tax on international trade	9.4	9.3	8.3	9.1	9.6	10.1	10.5	10.5	10.5
Direct and indirect taxes	7.4	7.8	7.7	8.3	8.7	8.8	8.8	8.9	8.9
Nontax revenue	3.8	2.3	2.4	3.2	2.1	2.1	2.0	1.9	1.9
Total expenditure and net lending	23.4	22.9	25.7	26.5	26.1	25.8	25.2	25.1	25.0
Current expenditures	15.9	15.5	15.6	16.8	17.3	17.0	16.7	16.4	16.2
Current primary expenditures	14.4	15.2	15.1	16.0	16.4	16.2	16.1	15.9	15.7
Wages	5.4	6.1	7.2	7.4	7.7	7.4	7.2	7.1	6.9
Pensions and scholarships	1.3	1.2	1.3	1.5	1.5	1.5	1.6	1.5	1.5
Transfers and current expenditures	7.7	7.9	6.7	7.2	7.2	7.3	7.3	7.3	7.3
Current transfers	4.0	4.0	3.5	3.6	3.6	3.7	3.7	3.7	3.7
Other current expenditure	3.7	3.9	3.2	3.6	3.6	3.6	3.6	3.6	3.6
Interest	1.6	0.3	0.5	0.7	0.9	0.8	0.6	0.5	0.5
Internal debt	0.0	0.2	0.2	0.5	0.6	0.5	0.4	0.3	0.2
External debt	1.6	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditures and net lending	7.5	7.3	10.0	9.7	8.8	8.8	8.5	8.6	8.8
Investment	7.5	5.8	9.6	9.7	8.8	8.8	8.5	8.6	8.8
Financed by domestic resources	3.2	3.5	7.1	4.9	4.0	4.0	3.7	3.9	4.1
Financed by external resources	4.3	2.3	2.6	4.8	4.8	4.8	4.8	4.8	4.7
Net lending (minus = reimbursement)	0.0	1.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-2.8	-3.5	-7.3	-5.9	-5.6	-4.8	-3.9	-3.7	-3.7
Basic primary balance [1]	3.1	0.7	-3.8	-0.3	0.1	0.7	1.5	1.6	1.5
Primary balance	-1.2	-3.1	-6.8	-5.1	-4.7	-4.1	-3.3	-3.2	-3.2
Change in arrears	-1.2	-0.5	-0.9	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-1.2	-0.5	-0.9	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3
Payments during complementary period/float [2]	0.6	-3.4	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-3.4	-7.4	-9.1	-6.4	-6.1	-5.2	-4.3	-4.0	-4.0
Financing	2.3	7.3	9.2	5.7	5.1	4.7	3.9	3.9	3.9
Domestic financing	-3.6	3.7	4.6	-0.5	0.0	-0.3	-1.1	-1.1	-1.0
Bank financing	-5.0	4.3	2.6	-0.2	0.3	-0.1	-1.0	-1.0	-0.9
Net use of Fund resources	0.0	0.3	0.2	0.0	0.0	0.0	0.0	-0.1	-0.1
Other	-5.0	4.0	2.3	-0.2	0.3	-0.1	-1.0	-0.9	-0.8
Nonbank financing	1.3	-0.6	2.1	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1
Privatization	0.2	0.2	0.6	0.6	0.3	0.3	0.0	0.0	0.0
Restructuring	0.0	-0.4	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0
Other	1.2	-0.4	1.9	-0.5	-0.5	-0.5	-0.1	-0.1	-0.1
External financing	5.9	3.7	4.5	6.1	5.1	5.1	5.0	5.0	4.9
Project financing	4.3	2.3	2.6	4.8	4.8	4.8	4.8	4.8	4.7
Grants	2.3	0.7	0.9	2.6	2.6	2.6	2.6	2.6	2.6
Loans	2.0	1.6	1.7	2.2	2.2	2.2	2.2	2.2	2.2
Amortization due	0.0	-0.3	-0.3	-0.5	-0.6	-0.6	-0.6	-0.4	-0.3
Program aid	1.7	1.6	2.3	1.8	0.9	0.9	0.8	0.6	0.5
Grants	0.7	1.0	2.3	1.8	0.6	0.6	0.6	0.5	0.5
Loans	1.0	0.6	0.0	0.0	0.3	0.3	0.2	0.1	0.0
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap / statistical discrepancy	1.1	0.1	-0.1	0.7	0.9	0.5	0.3	0.1	0.0
GDP (in billions of CFA francs)	2,658.1	2,992.6	3,136.1	3,305.2	3,529.0	3,802.4	4,117.0	4,458.4	4,828.9

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

[1] Total receipts (excl. grants) minus total expenditure, excluding investment expenditure financed from external sources and accrued interest.
[2] Payment orders whose payment has been postponed to the following period.

Table 4. Benin: Balance of Payments, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.	Projections					
				(Billions of CFA francs)					
Goods and services balance	-412.8	-397.1	-455.0	-449.4	-432.6	-454.7	-476.2	-500.4	-528.0
Credit	447.7	527.9	479.9	495.6	532.9	582.0	641.9	708.4	782.0
Debit	-860.5	-925.0	-934.9	-945.0	-965.5	-1,036.7	-1,118.1	-1,208.8	-1,310.0
Trade balance [1]	-378.9	-406.4	-443.1	-474.7	-465.4	-486.4	-510.0	-536.2	-565.6
Exports, f.o.b.	241.8	290.1	275.0	278.1	301.5	338.2	379.5	425.9	477.8
Cotton and textiles	66.2	78.9	63.1	57.6	59.0	59.4	59.0	59.3	59.6
Other	175.6	211.2	211.9	220.5	242.5	278.9	320.6	366.7	418.2
Imports, f.o.b.	-620.7	-696.5	-718.1	-752.8	-767.0	-824.6	-889.6	-962.1	-1043.4
Of which: petroleum products	-108.0	-66.3	-62.7	-71.4	-80.9	-88.7	-96.6	-105.6	-116.2
Services (net)	-33.9	9.3	-11.9	25.3	32.8	31.7	33.8	35.8	37.7
Credit	205.9	237.8	204.9	217.5	231.4	243.8	262.4	282.5	304.3
Debit	-239.8	-228.5	-216.8	-192.2	-198.6	-212.1	-228.6	-246.7	-266.6
Income (net)	-4.3	-5.1	-4.7	3.6	3.4	2.5	2.1	2.1	1.4
Of which: interest due on government debt	-42.1	-4.8	-8.2	-9.4	-10.2	-11.2	-12.1	-13.0	-14.1
Current transfers (net)	148.7	162.0	192.4	186.2	158.5	173.6	185.5	196.4	208.0
Unrequited private transfers	73.5	73.4	67.7	66.1	74.4	86.4	95.0	102.5	110.5
Public current transfers	75.2	88.6	124.7	120.2	84.1	87.2	90.5	93.9	97.5
Of which: program grants	18.3	30.4	71.3	60.6	22.9	22.9	22.9	22.9	22.9
Current account balance	-268.4	-240.2	-267.2	-259.6	-270.7	-278.6	-288.6	-301.9	-318.6
Current account balance (excl. program grants)	-286.7	-270.7	-338.5	-320.2	-293.6	-301.5	-311.6	-324.8	-341.5
Capital account balance	60.6	21.6	28.8	85.0	90.4	97.4	105.5	114.3	123.8
Financial account (net)	244.7	249.5	162.3	171.7	168.3	192.9	208.3	222.1	243.2
Medium- and long-term public capital	82.9	66.4	46.6	61.0	70.3	76.1	82.8	88.1	95.5
Disbursements	82.9	74.7	56.0	78.0	93.0	99.1	106.2	104.8	107.8
Project Loans	56.6	56.8	56.0	78.0	83.0	89.1	96.2	101.8	107.8
Of which: Central gvt project loans	52.6	47.7	52.0	74.0	79.0	85.1	92.2	97.8	103.8
Program loans	26.3	17.9	0.0	0.0	10.0	10.0	10.0	3.0	0.0
Amortization due	0.0	-8.3	-9.4	-17.0	-22.7	-23.0	-23.3	-16.7	-12.3
Foreign direct investment	125.3	77.8	43.7	73.9	60.3	76.3	82.0	87.2	97.2
Portfolio investment	32.4	9.4	30.1	19.6	0.0	0.0	0.0	0.0	0.0
Medium- and long-term private capital	31.6	45.0	28.8	25.2	27.7	30.4	33.5	36.8	40.5
Deposit money banks	-63.6	16.9	-40.2	-8.0	10.0	10.0	10.0	10.0	10.0
Short-term capital	36.1	34.1	20.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	49.1	16.9	24.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	86.0	47.9	-51.3	-3.0	-12.0	11.7	25.2	34.4	48.4
Financing	-86.0	-47.9	51.3	-21.3	-20.8	-31.3	-38.3	-40.5	-50.5
Change in net foreign assets, BCEAO (- = increase)	-86.0	-47.9	51.3	-21.3	-20.8	-31.3	-38.3	-40.5	-50.5
Of which: net use of Fund resources	-0.6	-8.4	-7.4	0.0	-0.1	-0.3	-0.4	-2.9	-3.6
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	24.3	32.8	19.6	13.2	6.1	2.1
Memorandum items:				(In percent of GDP, unless otherwise indicated)					
Net reexports	4.3	4.5	3.8	4.0	3.8	3.7	3.6	3.5	0.0
Reexports	9.8	9.5	8.2	8.6	8.2	8.0	7.8	7.6	7.4
Imports for reexports	-5.5	-5.0	-4.3	-4.6	-4.4	-4.3	-4.2	-4.1	-4.0
Current account balance (incl. program grants)	-10.1	-8.0	-8.5	-7.9	-7.7	-7.3	-7.0	-6.8	-6.6
Current account balance (excl. program grants)	-10.8	-9.0	-10.8	-9.7	-8.3	-7.9	-7.6	-7.3	-7.1
Balance of goods and services	-15.5	-13.3	-14.5	-13.6	-12.3	-12.0	-11.6	-11.2	-10.9
Trade balance	-14.3	-13.6	-14.1	-14.4	-13.2	-12.8	-12.4	-12.0	-11.7
Exports	9.1	9.7	8.8	8.4	8.5	8.9	9.2	9.6	9.9
Imports	-23.4	-23.3	-22.9	-22.8	-21.7	-21.7	-21.6	-21.6	-21.6
Income and current transfers (net)	5.4	5.2	6.0	5.7	4.6	4.6	4.6	4.5	4.3
Capital account balance	2.3	0.7	0.9	2.6	2.6	2.6	2.6	2.6	2.6
Financial account balance	9.2	8.3	5.2	5.2	4.8	5.1	5.1	5.0	5.0
Overall balance	3.2	1.6	-1.6	-0.1	-0.3	0.3	0.6	0.8	1.0
Gross official reserves (imputed reserves, billions of U.S. dollars) [2]	0.9	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.6
(percent of broad money)	47.8	44.0	46.1	45.3	43.9	42.7	39.1	38.2	37.6
WAEMU gross official reserves (billions of U.S dollars)	10.8	10.7	13.6	…	…	…	…	…	…
(percent of broad money)	56.6	55.0	58.7	…	…	…	…	…	…
(months of WAEMU imports of GNFS) [3]	5.4	6.1	6.9	…	…	…	…	…	…
GDP (in billions of CFA francs)	2,658.1	2,992.6	3,136.1	3,305.2	3,529.0	3,802.4	4,117.0	4,458.4	4,828.9

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

[1] Excluding re-exports and imports for re-export, whose net balance is divided between services and public transfers.
[2] Including the Special Drawing Rights allocation of August 2009.
[3] Months of future imports of goods and services

Table 5. Benin: Monetary Survey, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Prel.	Projections					
	(In billions of CFA francs)								
Net foreign assets	678.6	709.6	698.5	727.8	738.5	759.9	788.2	818.7	859.2
Central Bank of West African States (BCEAO)	529.7	577.6	526.3	547.6	568.4	599.7	638.0	678.6	729.0
Banks	148.8	132.0	172.1	180.1	170.1	160.1	150.1	140.1	130.1
Net domestic assets	268.9	510.4	597.1	637.7	719.4	811.0	912.6	1,023.1	1,135.7
Domestic credit	326.2	556.3	706.5	747.0	828.7	920.4	1,022.0	1,132.5	1,245.1
Net claims on central government	-186.7	-79.2	0.9	-4.7	4.2	-1.1	-41.6	-84.4	-128.0
Credit to the nongovernment sector	512.9	635.5	705.6	751.7	824.5	921.5	1,063.5	1,216.9	1,373.1
Other items (net)	-57.3	-45.9	-109.4	-109.4	-109.4	-109.4	-109.4	-109.4	-109.4
Broad money (M2)	947.4	1,220.0	1,295.6	1,365.4	1,457.9	1,570.9	1,700.8	1,841.8	1,994.9
Currency	238.9	356.9	331.8	349.7	373.4	402.3	435.6	471.7	510.9
Bank deposits	700.9	854.2	954.9	1,006.8	1,075.6	1,159.6	1,256.3	1,361.2	1,475.1
Deposits with postal checking accounts	7.6	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)								
Net foreign assets	18.58	3.27	-0.91	2.26	0.79	1.46	1.80	1.80	2.20
Net domestic assets	-0.89	25.49	7.11	3.13	5.98	6.29	6.47	6.50	6.11
Domestic credit	-1.44	24.29	12.31	3.13	5.98	6.29	6.47	6.50	6.11
Net claims on government	-14.39	11.35	6.57	-0.43	0.65	-0.36	-2.57	-2.52	-2.37
Credit to nongovernment sector	12.95	12.94	5.74	3.56	5.33	6.65	9.04	9.02	8.48
Broad money	17.7	28.8	6.2	5.4	6.8	7.7	8.3	8.3	8.3
Credit to the nongovernment sector									
(annual change in percent: year-on-year)	25.5	23.9	11.0	6.5	9.7	11.8	15.4	14.4	12.8
Memorandum items									
Velocity of broad money	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8
Broad money as share of GDP	35.6	40.8	41.3	41.3	41.3	41.3	41.3	41.3	41.3
Nominal GDP (in billions of CFA francs)	2,658.1	2,992.6	3,136.1	3,305.2	3,529.0	3,802.4	4,117.0	4,458.4	4,828.9
Nominal GDP growth (annual change in percent)	7.4	12.6	4.8	5.4	6.8	7.7	8.3	8.3	8.3

Sources: BCEAO; and IMF staff estimates and projections.

Table 6. Benin: Indicators of Capacity to Repay the Fund, 2009–23

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	0.0	0.0	0.2	0.4	0.6	3.9	5.0	4.8	4.5	4.3	1.0	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective drawings															
(in millions of SDRs)															
Principal	0.0	0.0	0.2	0.4	0.6	3.9	6.0	10.1	14.1	18.1	15.9	13.8	9.6	5.3	1.1
Charges and interest [1]	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit [2]															
In millions of SDRs	0.0	0.0	0.2	0.7	0.9	4.2	6.3	10.3	14.3	18.3	16.0	13.9	9.6	5.4	1.1
In billions of CFA francs	0.0	0.0	0.1	0.5	0.6	3.1	4.6	7.5	10.4	13.4	11.7	10.1	7.0	3.9	0.8
In percent of government revenue	0.0	0.0	0.0	0.1	0.1	0.3	0.4	0.6	0.8	1.0	0.8	0.6	0.4	0.2	0.0
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.1	0.4	0.6	0.9	1.1	1.3	1.0	0.8	0.5	0.3	0.0
In percent of debt service [3]	0.0	0.0	0.3	0.9	1.2	6.4	10.0	19.6	22.9	25.8	22.2	18.7	13.1	7.2	1.4
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0
In percent of quota	0.0	0.0	0.3	1.1	1.4	6.8	10.1	16.7	23.1	29.6	25.9	22.4	15.5	8.6	1.8
Outstanding Fund credit [1]															
In millions of SDRs	24.8	46.0	67.0	87.8	97.8	93.9	87.9	77.8	63.7	45.6	29.7	15.9	6.4	1.1	0.0
In billions of CFA francs	18.0	32.6	47.8	63.0	70.6	68.3	64.1	56.8	46.5	33.3	21.7	11.6	4.6	0.8	0.0
In percent of government revenue	3.1	4.8	6.6	7.9	8.0	7.2	6.2	4.9	3.7	2.4	1.4	0.7	0.3	0.0	0.0
In percent of exports of goods and services	3.7	6.6	9.0	10.8	11.0	9.6	8.2	6.6	4.9	3.2	1.9	0.9	0.3	0.1	0.0
In percent of debt service [3]	71.9	78.3	88.0	117.4	138.2	142.6	140.3	147.6	102.3	64.1	41.2	21.4	8.7	1.4	0.0
In percent of GDP	0.6	1.0	1.4	1.7	1.7	1.5	1.3	1.1	0.8	0.5	0.3	0.2	0.1	0.0	0.0
In percent of quota	40.0	74.3	108.3	141.9	158.0	151.7	142.0	125.7	102.9	73.7	48.0	25.7	10.3	1.7	0.0
Net use of Fund credit (millions of SDRs)	10.2	21.2	21.0	20.8	10.0	-3.9	-6.0	-10.1	-14.1	-18.1	-15.9	-13.8	-9.6	-5.3	-1.1
Disbursements	10.2	21.2	21.2	21.2	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.2	0.4	0.6	3.9	6.0	10.1	14.1	18.1	15.9	13.8	9.6	5.3	1.1
Memorandum items:															
Nominal GDP (in billions of CFA francs)	3,136.1	3,305.2	3,529.0	3,802.4	4,117.0	4,458.4	4,828.9	5,252.3	5,712.9	6,207.9	6,745.8	7,330.3	7,965.5	8,655.7	9,405.7
Exports of goods and services (in billions of CFA francs)	479.9	495.6	532.9	582.0	641.9	708.4	782.0	861.8	949.7	1,046.6	1,153.3	1,270.9	1,400.6	1,543.4	1,700.9
Government revenue (in billions of CFA francs)	575.8	681.9	721.9	797.2	878.4	951.8	1,029.4	1,166.0	1,268.3	1,378.2	1,497.6	1,627.3	1,768.3	1,921.6	2,088.1
Debt service (in billions of CFA francs) [3]	25.0	41.6	54.2	53.7	51.1	47.9	45.7	38.5	45.5	51.9	52.6	54.3	53.3	54.6	56.0
CFA francs/SDR (period average)	725.6	709.3	712.4	717.1	722.1	728.0	729.8	729.8	729.8	729.8	729.8	729.8	729.8	729.8	729.8

Sources: IMF staff estimates and projections.

[1] Charges of interest projections reflect temporary waiver of interest payments on concessional lending in 2010–11.

[2] Prospective drawings assume a new ECF arrangement of 120 percent of quota (SDR 74.28 million) expected to be considered in June 2010.

[3] Total public debt service, including IMF repurchases and repayments.

Table 7. Benin: Proposed Schedule of Disbursements Under
the Proposed ECF Arrangement, 2010–2013

Amount	Date Available	Conditions Necessary For Disbursement [1]
SDR 10.62 million	June 14, 2010	Executive Board approval of the three-year Arrangement.
SDR 10.61 million	December 31, 2010	Observance of performance criteria for June 30, 2010, completion of the first review under the arrangement.
SDR 10.61 million	June 30, 2011	Observance of performance criteria for December 31, 2010, completion of the second review under the arrangement.
SDR 10.61 million	December 31, 2011	Observance of performance criteria for June 30, 2011, completion of the third review under the arrangement.
SDR 10.61 million	June 30, 2012	Observance of performance criteria for December 31, 2011, completion of the fourth review under the arrangement.
SDR 10.61 million	December 31, 2012	Observance of performance criteria for June 30, 2012, completion of the fifth review under the arrangement.
SDR 10.61 million	May 30, 2013	Observance of performance criteria for December 31, 2012, completion of the sixth review under the arrangement.
SDR 74.28 million		Total amount

Source: International Monetary Fund.

[1] Other than the generally applicable conditions under the ECF arrangement, including the performance clause on the exchange and trade system.

Table 8. Benin: Millennium Development Goals

	1990	1995	2001	2002	2003	2004	2007	2015 Target	Likelihood of reaching target
Goal 1. Eradicate extreme poverty and hunger									
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.									Likely
- Population below US$ 1 a day (percent)	57.0	..	..	43.0	...	...	…	28.0	
- Population below minimum level of dietary energy consumption (percent)	...	29.0	23.0	..	..		..	10.0	
Goal 2. Achieve universal primary education									
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling									Likely for boys
- Net primary enrollment ratio (percent of relevant age group)	41.0	...	52.0	..	..	...	80.0	100.0	
- Percentage of cohort reaching grade 5	55.0	...	72.0	...	...	69.0	64.0		
- Youth literacy rate (percent age 15-24)	64.0	...	...	...	..	...	…		
Goal 3. Promote gender equality and empower women									
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015									Unlikely
- Ratio of girls to boys in primary and secondary education (percent)	49.5	..	65.4	67.0	68.1	71.4	73.0	100.0	
- Ratio of young literate females to males (percent ages 15-24)	43.6	47.3	52.0	...	..	...	…		
- Proportion of seats held by women in the national parliament (percent)	3.0	9.0	...	...	...	...	8.0		
Goal 4. Reduce child mortality									
Target 5: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate									Unlikely
- Under-five mortality rate (per 1,000)	185.0	170.0	160.0	..	154.0	152.0	148.0	61.7	
- Infant mortality rate (per 1,000 live births)	111.0	104.0	94.0	92.0	91.0	90.0	88.0		
- Immunization against measles (percent of children under 12-months)	79.0	65.0	65.0	78.0	83.0	85.0	89.0		
Goal 5. Improve maternal health									
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.									Unlikely
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	547.0	..	..	474.0	..	...	397.0	137.0	
Goal 6. Combat HIV/AIDS, malaria and other diseases									
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS									Likely
- HIV/AIDS prevalence	0.3	3.2	4.1	1.9	..	2.1	1.2	<6.0	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases									Likely
- Prevalence of death associated with malaria (per 10,000)	21.0	11.0		6.8	..	...	…	12.0	
Goal 7. Ensure environmental sustainability									
Target 9: Halve by 2015 proportion of people without access to safe drinking water									Likely
- Access to improved water source (percent of population)	37.0	..	...	...	..	63.0	65.0	68.0	

Sources: Benin's authorities and World Bank estimates and projections.

LETTER OF INTENT

May 27, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

From 2005 to 2009, we implemented a financial program supported by the IMF that enabled us to make substantial progress toward macroeconomic stability, with moderate inflation and a significant resurgence of economic growth. Under the combined effect of fiscal consolidation, optimal management of the public debt, and debt relief under the HIPC initiative and MDRI, we have rebalanced public finances and undertaken structural forms to enhance competitiveness. Real GDP growth accelerated steadily, reaching 5 percent in 2008.

The fallout from the global economic crisis has posed new challenges. Economic growth slowed considerably in 2009 and projections suggest that it will remain sluggish in 2010 because of the decline in global economic activity, the fall in commodity prices, and the decline in remittances from Beninese expatriates. This decline in growth has strained the government's financial position and is hampering our efforts to accelerate economic growth and reduce poverty in Benin. Stagnation of public revenues in 2009 and increases in spending on wages and investment during the first half of the year to contain the domestic impact of the crisis put pressure on the government Treasury. In the second half of the year, these pressures were eased by fiscal adjustments to control public expenditure and to mobilize additional concessional budgetary assistance from financial and technical partners (including BCEAO financing backed by the IMF's additional SDR allocations in August and September 2009). These efforts made it possible to avoid a new accumulation of domestic arrears. However, the 2009 fiscal year ended with an overall fiscal deficit (on a payment order basis) of 7.3 percent of GDP.

In 2010 and for the medium term, the government will step up its efforts to rebalance public finances, limit the impact of the global economic crisis on growth and on the most vulnerable segments of the population, support the economic recovery, and continue to implement the Poverty Reduction and Growth Strategy to meet the Millennium Development Goals.

The authorities are resolved to implement a macroeconomic and structural reform program that will support the economic recovery in the short term and place the country on the road to stronger sustained growth in the medium term, while preserving macroeconomic stability and debt sustainability. On the macroeconomic policy side, this will mean pursuing a prudent fiscal policy to maintain macroeconomic stability and preserve the fiscal space needed to strengthen the social safety nets and support other priority social spending. Although declining, the financing gaps will remain high (particularly in 2010). They should be covered by additional budgetary assistance from our development partners. The government has already begun to mobilize these funds.

This policy will be accompanied by structural reforms that will improve competitiveness and establish a business environment more favorable to investment. These reforms will be focused on improving fiscal management, strengthening the tax and customs administrations, increasing the role of the private sector in the management of the public utilities, and reforming the civil service to improve its efficiency and reduce recurrent fiscal costs for the government.

The main features of the measures we plan to adopt under the framework of the new program are outlined in the attached Memorandum on Economic and Financial Policies (MEFP). To support its policies, the government asks the Executive Board of the IMF to approve a three-year arrangement under the Extended Credit Facility (ECF), with access equivalent to SDR 74.28 million (120 percent of quota).

The government of Benin will provide the IMF with all information on progress in the implementation of its economic and financial policies. It believes the policies set out in the MEFP will achieve the objectives of the program, and the government of Benin will adopt any other measures needed to achieve the objectives of the program. The government will consult with the IMF before adopting such additional measures or changing any of the measures included in the MEFP, in accordance with IMF policies on such consultations.

The government authorizes the IMF to publish its staff report and the attached Memorandum on Economic and Financial Policies.

Sincerely yours,

/ s /

Idriss L. Daouda
Minister of Economy and Finance

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding

APPENDIX I—ATTACHMENT I

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

1. **During the past decade, the performance of the Beninese economy has been satisfactory, with economic growth becoming more sustained in the past three years.** The country has progressed with fiscal consolidation and has kept consumer prices under control despite the acceleration of inflation in 2008 as international food and fuel prices rose. These encouraging results are attributable mainly to the fiscal space created by the cancellation of external debt under the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) as well as the implementation of economic and financial policies supported by the International Monetary Fund (IMF) under the PRGF-supported program. However, evaluations of policies implemented indicate that poverty has not been reduced significantly owing to the volatility of economic growth, which has been led mainly by the tertiary sector, while the majority of the population and labor force works in the primary sector.

2. **The Beninese economy began its upturn in 2006**. Growth was led by the improved performance of the tertiary sector—transport and commerce in particular—and agriculture. Nevertheless, the real GDP growth rate remained below the minimum required to achieve the Millennium Development Goals (MDGs), partially owing to the limited contribution of the secondary sector as a result of shortages and high cost of electricity.

3. **However, Benin began to feel the effects of the global economic crisis in 2009.** Preliminary indicators show that GDP growth slowed to 2.7 percent, compared to an initial projection of 6.1 percent and an average of 4.5 percent during the previous three years. Cotton production was affected by lower international prices and the tertiary sector suffered as Nigeria's imports declined. Agriculture, which has benefited from ample food production with the implementation of the Emergency Food Security Program and technical and financial assistance from our development partners, helped to keep economic growth positive in 2009. Transportation and communications also played an important role.

4. **Inflation has decelerated in recent years.** The slowing of price increases observed since 2006 was reversed temporarily in 2008 because of the sharp rise in international prices for food and fuel, but inflation declined in 2009 as international prices came down. The government's efforts to promote food production also contributed to this decline. The inflation rate (year-on-year) dropped from 9.9 percent in December 2008 to -2.9 percent in December 2009, yielding an average inflation rate of 2.2 percent in 2009.

5. **Serious social tensions and the global economic crisis had a negative impact on government finances in 2009.** The basic primary deficit declined to 3.8 percent of GDP and the overall fiscal deficit on a payment order basis fell to 7.3 percent of GDP. Owing to

weakening customs revenues, which declined 7 percent from 2008 levels, total revenues remained almost steady in nominal terms as compared to 2008 despite the rise in domestic tax revenues and nontax revenues. At the same time, expenditure increased by 16 percent in 2009. The wage bill rose 24 percent owing to increased benefits paid to civil servants and hiring in the priority sectors of health and education. Domestically financed investments doubled compared with 2008, partly reflecting the execution of CFAF 113.2 billion of carryovers. This placed a great deal of pressure on the government's cash flow, which was offset by the mobilization of more than CFAF 100 billion in additional resources including: (1) BCEAO financing backed by the SDR allocations of CFAF 32.8 billion; (2) bond refinancing by the BCEAO of CFAF 36.5 billion; (3) a V-Flex grant from the European Union of CFAF 16.4 billion; and (4) an African Development Bank loan of CFAF 7.8 billion.

6. **The government made important decisions in the final months of 2009 to improve the fiscal situation.** As budget execution weakened owing to the fallout of the international economic and financial crisis, the government prepared, adopted, and implemented a fiscal consolidation plan that included: (1) a firm limit on bonuses, allowances, and other benefits paid to civil servants; (2) an acceleration of the process of regularizing exceptional payment orders (*ordres de paiement*) dating back to 2006, 2007, and 2008, and a strict limit on the use of such exceptional procedures; (3) a strengthening of budget monitoring with the involvement of the Treasury committee; (4) an audit of the float; and (5) an emergency action plan to increase tax revenues. In addition, the government decided to: (1) halt capital spending commitments as of September 28, 2009; (2) reduce the end of December 2009 fiscal target for stipends and pensions to CFAF 5.3 billion; (3) reduce other expenditure and transfers by CFAF 24.5 billion; and (4) postpone CFAF 50 billion in capital spending to the 2010 fiscal year. These measures, along with the mobilization of additional budgetary assistance, made it possible to reduce the float by CFAF 27 billion in 2009.

7. **The external current account deficit excluding grants increased.** In fact, it reached 10.8 percent of GDP in 2009 from annual average of 8.8 percent from 2006 to 2008. This evolution of the external situation is essentially linked to: (i) the decline in net services and public and private transfers, which were affected by the international economic crisis; and, to a lesser extent, (ii) the worsening trade balance related to the more pronounced slowdown in cotton and textile exports. In contrast, the financial and capital accounts improved significantly with additional flows of public capital from concessional loans and from allocation of SDRs to deal with the effects of the international economic crisis. In spite of this, the overall balance registered a deficit of 1.6 percent of GDP.

8. **Monetary policy at the regional level responded to the challenges of the crisis.** In particular, on June 12, 2009, the monetary authorities decided to reduce the intervention rate from 4.75 percent to 4.25 percent and to reduce the required reserve ratio for Benin from 15 percent to 9 percent. Foreign assets declined as the global economic crisis affected exports and private transfers. Credit to the private sector increased by 7.5 percent in 2009 owing to rising domestic demand in the second half of the year. The net government position

worsened compared to the end of December 2009 as a result of the significant pressure of expenditure on the government Treasury.

9. **Structural reforms, particularly those of public enterprises, have made good progress.** They were implemented steadily and with determination, reflecting the government's commitment to transforming economic structures in order to ensure the competitiveness of the national economy and to establish the conditions for strong economic growth:

- In the cotton sector, the reforms focused on four principal axes: (i) the definition of a new approach for the comprehensive reform of the cotton sector; (ii) the divestiture of SONAPRA's industrial assets and the creation on October 11, 2008, of the Société pour le Développement du Coton (SODECO), 51 percent of whose capital is now held by a strategic investor since the sale of shares reserved for the public; (iii) the establishment in December 2008 of the Agricultural Input Purchasing Pool (CAI) intended to provide a satisfactory response to the problem of the supply of inputs on which the success of the agricultural policy depends; and (iv) the ongoing development of the institutional framework for agricultural policy.

- The divestiture of the Hôtel Croix du Sud and the Hôtel de la Plage and the withdrawal of the government from the Continental Bank–Bénin were completed in 2007 and 2008. In September 2009, the government called for bids to reform the commercial lumber affiliate, Société du Bois du Bénin. The final decision and the signing of the legal documents for the transaction took place in December 2009, finalizing the transfer to the private sector of 65.0 percent of the industrial assets of the Office National du Bois, and planning its rehabilitation and the development of the wood processing industry.

- With the assistance and advice of the International Finance Corporation (IFC), the outsourcing of construction of the new south container terminal consisting of two accommodation berths, with Millennium Challenge Account financing, was organized and carried out in the September 2009 by competitive bidding. This project was to improve performance of the Autonomous Port of Cotonou.

- In March 2010, the government stake in the Société des Ciments d'Onigbolo (SCO), equivalent to 51 percent of the shares of the company, was sold to a private investor for an amount of CFAF 20 billion, of which CFAF 17.5 billion have already been cashed. The balance, namely CFAF 2.5 billion, will be paid once the modalities to terminate the lease management contract have been finalized by mutual agreement.

- The process of opening the capital of Benin Telecom to private investors is on track. The candidates have been prequalified, and bids were called for in April 2010.

- In addition, the new strategy for the civil service pension fund (Fonds national des retraites du Bénin—FRNB) and the financial audit of the accounts of the electricity company (SBEE) were completed. Based on the financial audit of the SBEE, the government decided in March 2010 to convert part (CFAF 14.02 billion) of the loans on-lent to the SBEE in order to replenish the company's capital; to guarantee its debt service to the West African Asset Management Company (Société Ouest Africaine de Gestion d'Actifs—SOAGA) in the amount of CFAF 15.7 billion, which was rescheduled over seven years with a two-year grace period; and to securitize the SBEE's debt to the international power utility CEB in the amount of CFAF 25 billion.

- The use of the single tax identification number (TIN) was extended to all importers and exporters and all large enterprises, and the data interconnection between the tax department (DGID) and the customs department (DGDDI) became operational.

- As regards the one-stop window at the customs and the Port of Cotonou, the Council of Ministers selected a computerized port operator management system that will be installed by the end of December 2010 and that should be integrated with a similar system at customs operations to implement the federation of the various participants.

- In addition, the administrative capacity of the revenue agencies has been improved through more efficient use of the IT system. The tax base has been expanded, and efforts to combat fraud have been stepped up, as has the tracking of the value of imports. The government has created a reform management unit (UGR) to improve the fiscal management system at the Ministry of Economy and Finance; the UGR is responsible for tracking the implementation of action plans adopted at the beginning of 2009 and for updating it every year.

- To demonstrate its determination to implement the program, the government has (i) increased, in April 2010, all electricity rates by 10 CFAF per kWh on average, to improve SBEE's financial situation; (ii) launched, in May 2010, a call for bids for the establishment of a one-stop shop for port operations at the Port Autonome de Cotonou (PAC).

- The government will introduce by the end of 2010 the two outstanding reforms from the last PRGF arrangement. They include (i) the elaboration of an IT master plan for the tax department (DGID), which will be adopted after its audit to generalize the TIN; and (ii) the extension of the ASYCUDA++ computer system to 12 additional regional customs offices.

OBJECTIVES OF THE NEW PROGRAM (2010–13)

10. **In the wake of the international economic crisis, Benin faces deteriorating external and fiscal positions, making it imperative to** (i) accelerate the implementation of structural measures and (ii) obtain financial and technical support from the development partners to counteract the adverse effects of the crisis on the economy and to lay the foundations for a lasting economic recovery. In the short term, Benin should maintain macroeconomic stability and mitigate the effects of the crisis on economic growth and on the decline in private investment and migrants' remittances, which benefit the most vulnerable segments of the population. The government intends, therefore, to conduct a countercyclical

policy, including introducing social safety net arrangements, while preserving debt sustainability. In the medium term, a more rapid implementation of structural measures should improve the competitiveness of the economy and promote a sustainable economic recovery. These objectives aim to support the growth and poverty reduction strategy currently in the process of being finalized.

Macroeconomic objectives

11. **To consolidate the achievements of previous economic programs, the government has prepared an economic and financial program for 2010–13.** This program will contain the effects of the international economic and financial crisis, which is undermining the economic recovery efforts undertaken since 2006, and will lay the foundation for strong, balanced growth to meet the MDG. The objectives of the financial program are consistent with the new poverty reduction strategy being prepared for 2010–14, which will be a framework for technical and financial support from Benin's development partners.

12. **Aware of the risks presented by the global crisis for the short- and medium-term outlook for the Beninese economy, the government intends to address this challenge through a six-pronged strategy:** (i) implement an economic policy focused on accelerating growth and reducing poverty; (ii) increase competitiveness by improving infrastructure, particularly through the adoption of an integrated framework for the development of the transportation infrastructure, by mobilizing private investment in the management of new port installations and the rehabilitation of the railroads and by opening the one-stop window; (iii) improve the productivity of the agricultural sector to increase incomes in rural areas while ensuring stable prices on urban markets; (iv) step up structural reforms by emphasizing the restructuring of public enterprises; (v) modernize management and expenditure tracking system of the revenue agencies and improve public financial management; and (vi) implement the second-generation reforms (justice, land tenure, and financial services) with the support of Millennium Challenge Account (MCA)-Benin.

13. **The implementation of the program will make it possible to accelerate economic growth.** The objective is to achieve a real GDP growth rate of at least 6 percent in the medium term. This will be achieved under the framework of an inflation rate under 3 percent, in line with the WAEMU convergence criteria. Growth will be led by higher public and private investment and improved productivity as a result of ambitious structural reforms.

14. **Several priority actions have been identified and their implementation should support improvement in the growth rate.** The growth rate for the primary sector should improve owing to: (i) the increased productivity of the cotton sector as the new sectoral management framework is implemented and the central purchasing pool for agricultural inputs starts; (ii) implementation of the diversification strategy through the development of other targeted agricultural sectors; and (iii) improvement of agricultural research by increasing the number of research staff and providing training in new technologies, particularly biotechnology. The secondary sector is expected to achieve a higher level of growth primarily owing to: (i) an increase in construction activities related to major public

works projects (the Godomey highway interchange, public housing, rural roads and tracks, infrastructure to combat coastal erosion, and so on); (ii) enhanced processing of food products in response to the expected increase in agricultural output; and (iii) increased activity in the cement sector with the startup of the new cement factory. In contrast, the tertiary sector is expected to continue to feel the effects of the financial crisis in the short term, although these should be mitigated by continued efforts to modernize the Port of Cotonou through the extension of the breakwater and purchase of a new computer system integrated with the overall port operation system.

Fiscal policy and public financial management

15. **Fiscal consolidation will be continued to create the fiscal space needed to increase priority spending in the social sectors while reducing budget deficits.** Measures will include improving mobilization of domestic revenues and more rigorously managing public expenditure. Total revenues should increase from 19.2 percent of GDP during 2006–08 to 20.8 percent of GDP during 2010–13. Beyond cyclical factors, such as easing the impact of the international financial crisis, tax revenues should show a significant improvement, increasing to 8.7 percent of GDP owing to continued efforts to expand the tax base, strengthen the tax and customs administrations, and combat fraud. Meanwhile, customs revenues will stay at an average of around 10 percent of GDP during 2010–2013 as a result of improvements in the customs administration that will offset downward pressure from the implementation of the Economic Partnership Agreements with the European Union (which will result in lower duties on European products) and from the transition to the regional tax regime (that will entail a loss of revenue from the elimination of customs barriers and the liberalization of intracommunity trade with other WAEMU countries).

16. **To improve tax and customs revenue collection, during the next three years we plan to accelerate tax reforms, strengthen capacity and synergy between the tax and customs administrations, and intensify efforts to combat fraud and corruption.** The report of the Task Force on Tax and Development will be used to this purpose. In particular, there are plans to: (i) implement the personal taxation reform; (ii) expand the tax base; (iii) tax informal activities; (iv) enhance the dialogue between the customs and tax administrations and the private sector; (v) strengthen the capacities of the tax and customs administrations (training, purchase of adequate equipment, and so forth); (vi) implement an appropriate tax regime for small savers, microcredit, and microenterprises; (vii) broadly and fully implement the single tax identification number (TIN); (viii) install joint (customs–tax department) teams to combat commercial fraud; (ix) enhance the capacity of customs inspectors in financial and accounting investigations and audits; (x) fully computerize the customs and tax units, establish an interface between the customs and taxation computer systems, and systematically use reliable interconnections between units in the two administrations; (xi) improve audit targeting of controls; and (xii) strengthen controls over transit trade. An action plan will be adopted to implement all of these reforms, which will be guided by units to be installed in each agency. The UGR will be responsible for monitoring the implementation of these reforms.

17. **Expenditures will be targeted to support growth and poverty reduction.** Total expenditure is expected to represent 25.9 percent of GDP on average during the period 2010–13, an increase of 4 points from 2006–08. This increase will take place in a context of improved public financial management, enhanced capacity to absorb resources, and improved quality of expenditure. An overall civil service reform strategy will be adopted, beginning with a review of the civil service remuneration policy to promote the establishment of an administration focused on development that works in the general interest and in service of the private sector. In contrast, capital spending will increase by 3 percentage points of GDP during 2010–13 compared with 2006–08. The increase will be a result of the implementation of infrastructure programs and projects that should revitalize the growth pillars identified in "Benin 2025, Agenda for an Emerging Economy".

18. **The authorities also believe it is essential to advance the budget preparation process to improve the effectiveness and transparency of public financial management.** The authorities will continue to reform the organic law on the budget to create results-oriented management in line with WAEMU directives on the subject. The authorities intend to take advantage of technical assistance from the IMF's Fiscal Affairs Department and to get assistance from other technical and financial partners. Moreover, starting with the 2011 budget law, the draft budgets presented to the National Assembly will be consistent with the program agreed to with IMF staff.

19. **Capacity-building for those involved in the expenditure process will involve implementation of the following reforms:** (i) effectively implementing the public procurement code; (ii) implementing an integrated public procurement management system (SIGMAP); (iii) strengthening public procurement procedures, particularly by limiting the use of single tendering; (iv) adjusting the government budget and accounting classification in line with performance-based management, (v) extending performance-based management to all sectors of public administration through the design of program budgets, and (vi) improving budget execution procedures. Achievement of these objectives will also be linked to improvements in expenditure absorption capacity and a sustained level of investment, particularly in infrastructure. Participants should prepare and apply the budget appropriations utilization plan and the public procurement plan. Moreover, a harmonized data and tracking/evaluation system for the public investment program (SHISEPIP) will be created to monitor the rate of absorption of the capital spending.

20. **The government's public debt management strategy is based on a consistent, comprehensive vision of its debt policy.** This strategy recommends the implementation of timely measures to limit public debt to proportions compatible with the country's capacity to honor its commitments and fully finance its development. The government will ensure that financing will be grants or highly concessional external loans (with a grant element of at least 35 percent), and it intends not to exceed an amount consistent with debt sustainability.

Structural reforms

21. **The government is aware that competitiveness is an essential component of sustainable growth and is determined to implement structural reforms that will enable**

it to handle the challenges facing it in the medium term. These reforms are part of the strategy for implementing the vision contained in the "Benin 2025 Agenda," and they will serve as the foundation for improving the overall and sectoral competitiveness of the economy. Reforms of public enterprises thus will open these companies to private-sector investment or improve their financial viability and productivity so they contribute more to the competitiveness of the economy. The government will therefore undertake various reform efforts, particularly in the key sectors of telecommunications, energy, transportation, and the civil service pension scheme.

22. **In the energy sector, the government in 2007 opted, following the ongoing financial restructuring of the SBEE, to establish an asset management company on one side, and a distribution company on the other side. The latter is being analyzed in depth and its capital will be opened to the private sector, following the review of the regulatory framework for the sector.** Studies on this regulatory framework have already begun with AFD financing and the results should enable us to adopt the new framework by June 2011. This framework should lead to private sector investment in the production and distribution of electricity and should also guarantee transparency in the electricity price-setting mechanism with the establishment of a regulatory authority. The government also plans to improve the SBEE's financial position to reduce subsidies, which are a strain on the government budget.

23. **In the telecommunications sector, the government plans to sell the majority of its shares to a strategic partner by the third quarter of 2010.** The 2009 audited financial statements of Benin Telecom are, therefore, being prepared and should be ready by June 2010. Along with the financial statements for 2005–08, which are already available, they will give investors an accurate picture of the financial position of the company. Sale of the shares to a strategic partner should be completed during the third quarter of 2010. The government, in coordination with the staff of the International Monetary Fund, will decide on the use of the proceeds of the sale and the CFAF 20 billion from the sale of SCO.

24. **In the transportation and port services sector, the government also intends to continue its privatization policy.** The contract for managing the new container terminal financed by Millennium Challenge Account funds was awarded to an international company. Also, Benin and Niger have reached an agreement on outsourcing the management of the OCBN.

25. **The government is continuing its reform of the civil service pension fund (FNRB).** To contain the fiscal impact of the FNRB deficit, it is essential that the pension fund become more viable. An actuarial audit completed in September 2009 identified several options for reform. Based on the recommendations of this audit, the government is preparing a draft law to implement a new strategy that will reduce the actuarial deficit of the FNRB. The draft law should be studied by the National Standing Commission on Dialogue and Collective Negotiations between the Government and Union Federations and Groups by the end of December 2010. The government will review the draft by June 2011 at the latest and submit it to the National Assembly by December 2011.

26. **The government will seek to improve Benin's business environment and raise Benin to the average level of the emerging countries by 2013.** Achieving this objective will require a reform effort and a significant commitment on the part of the authorities. The government has therefore established a steering committee for this purpose headed by the minister of state for development. The government adopted the report of this "Doing Business" steering committee in June 2009 and decided to promote improvements in the business environment in the short, medium and long terms by: (i) simplifying procedures and reducing the cost and time required to set up a business and obtain construction permits; (ii) improving shareholders' protection against abuse by strengthening their procedural rights; (iii) easing burdensome tax procedures and simplifying the payment of taxes by reducing the number of returns to be filed and proposing a staggered payment option for enterprises; (iv) simplifying customs clearance procedures by making the one-stop window operational; and (v) improving the management of commercial disputes by training judges in the use of simplified procedures that promote negotiated solutions.

27. **To ensure shared prosperity, the microfinance policy will be further enhanced via the microcredit program for the very poor**. In addition, the national program for entrepreneurship and youth employment will be strengthened, and an agricultural partnership project will be established with the help of the United Nations Development Program (UNDP) and the Songhai Centre. The resources allocated to these programs will be expanded to cover a larger number of beneficiaries. As well, the financed projects will focus on creation of high-performance small- and medium-sized enterprises that are part of the pillars of growth identified in the "Benin 2025 Agenda."

THIRD-GENERATION GROWTH AND POVERTY REDUCTION STRATEGY (2010–14)

28. **The Growth and Poverty Reduction Strategy (GPRSP) expired at the end of 2009 and the government has begun to prepare a new strategy.** The new strategy will focus on local and sectoral strategies and development issues that have not been dealt with in depth. These issues include the employment of young people and women, the opening up of agricultural production zones, the promotion of rural economic growth, the enhancement of the legal capacity of the poor and social protection and solidarity. Similarly, organization of the rural world and agricultural diversification, demographic changes, trade issues relating to the ACP-EU Economic Partnership Agreements, and issues regarding climate change should be examined. The new strategy should be more integrated and consolidate all sectoral strategies and should be better adapted to all levels of Beninese society. It will also include an action plan to develop a tracking system for social and priority expenditures. The government will submit the final version of the strategy to the technical and financial partners in July 2010.

MACROECONOMIC POLICY IN 2010

Macroeconomic framework

29. **In 2010 economic policy will focus on measures to counteract the international economic and financial crisis.** Growth should reach 3.2 percent in 2010 compared with

2.7 percent in 2009, sustained by continued reforms of the agricultural sector, a revitalization of the construction sector, improved output in the cement sector with the startup of the new cement factory, and continued modernization of the Port of Cotonou. Inflation should stay below the community standard of 3 percent, owing in particular to the availability of food products and easing of prices for imported commodities. The external current account excluding grants should show a deficit of 9.7 percent of GDP.

Fiscal policy

30. **Total revenue should increase by 18.4 percent in 2010 to CFAF 681.9 billion or 20.6 percent of GDP.** Tax revenues are expected to rise by 14.5 percent to CFAF 275.8 billion, owing to expansion of the tax base, implementation of the urban land registry, expanded controls by the audit and assessment units, training of audit officials to use the computerized accounting system, computerization of the new tax centers for medium-sized enterprises, taxation of informal activities, application of ordinary law to domestically financed procurement contracts, and adoption of a favorable tax regime for small savers, microcredit, and the informal sector. Customs revenue is expected to increase by 15.8 percent to CFAF 299.7 billion in 2010 owing to the resumption of re-exports to Nigeria. Nonetheless, several reforms are expected in 2010, such as the opening of four new customs posts on the Nigerian border, further expansion of ASYCUDA++ to 12 new customs offices, simplification of customs clearance procedures, and enhancement of measures to combat corruption and fraud. In particular, the government intends to issue personal identification numbers to all taxpayers and to end the systematic use of nonspecific numbers by the end of December 2010. A 41.0 percent increase in nontax revenues to CFAF 106.3 billion is also expected, owing to the sale of 3G GSM licenses and improvements in collections by the Treasury Administration.

31. **The government will continue to limit recourse to exceptional budget execution procedures (*ordres de paiement*) to a strict minimum in 2010.** Punitive measures, therefore, will be applied to recipients of unauthorized *ordres de paiement* (mandatory repayment by recipients and/or denied access to SIGFIP for the ministries or institutions involved).

32. **Total expenditure should stand at CFAF 876 billion, an increase of approximately 9 percent in 2010.** The wage bill is expected to increase by 7.7 percent, as a result of the increase in the wage scale and grade drift for civil servants. Public investment should stand at CFAF 320.9 billion in 2010, an increase of approximately 6.1 percent from 2009, based on continuation of infrastructure construction projects and implementation of the agricultural mechanization program.

33. **The wage bill will be limited to CFAF 243.2 billion in 2010.** In its decisions of August 5, 2009, and October 7, 2009, the government decided not to grant new bonuses, allowances, or other benefits to civil servants until the study of their remuneration system was completed. The government stood by these commitments, although it had to agree to adjust the salaries of employees in the higher education sector, whose remuneration was not competitive enough to ensure that a disagreement on the salary adjustment timetable would

not result in a lost year for the university. This adjustment will take effect in October 2010. Similarly, after several weeks of strikes, the government had to grant other categories of teachers an increase in housing allowances, effective in October 2010, and a 25 percent increase in base salary from January 2011. The total budgetary impact of these measures is estimated at CFAF 3.4 billion in 2010 and approximately CFAF 20 billion per year during 2011–13. However, the government will take the necessary measures to keep the wage bill to the aforementioned target of CFAF 243.2 billion in 2010. In this framework, the government has established a committee of representatives of the government, labor unions, and social partners to act as a single negotiating framework for salary demands. This should facilitate a transparent national dialogue, leading to multiyear salary agreements that take account of the government's financial capacity and its economic and social policy priorities.

34. **The overall deficit on a payment order basis, which stands at 7.3 percent of GDP in 2009, is expected to remain high in 2010 at 5.9 percent of GDP.** As a result, the government will seek additional financial assistance from the international community in 2010 to cover the financing gap. Should the additional financing not materialize, the government will cut the equivalent amount in nonpriority spending.

External sector and monetary policy

35. **The monetary policy conducted by the BCEAO will remain consistent with the objective of price stability.** The broad money growth rate, therefore, is forecast at approximately 5.4 percent, reflecting an increase in credit to the economy and a rise in net foreign assets. The BCEAO's key intervention instrument will be its interest rate policy, which will depend on the impact of the economic crisis on the economies of the zone. The BCEAO will continue to closely monitor inflationary trends and the official exchange reserves.

36. **Inspection missions to the banks by the WAMU Banking Commission will continue to monitor the financial system.** These missions will make it possible to avoid crises by identifying potential vulnerabilities. The government has asked for a Financial Stability Assessment Program (FSAP) mission in 2010 and is committed to implementing any resulting recommendations. The authorities intend to enhance banking supervision to improve compliance with the prudential ratios and will also try to strengthen the application of the regulatory framework to the microfinance sector.

Structural reforms

37. **Structural reforms will be accelerated to create conditions favorable to economic recovery.** The reforms will include, in particular the:

- Adoption by the Council of Ministers of all implementing decrees for the Public Procurement Code by the end of September 30, 2010 (structural benchmark);

- Submission to the National Assembly of legislation introducing the personal income tax by the end of October 31, 2010 (structural benchmark);

- Extension of the ASYCUDA++ computer system to 12 additional regional customs offices by the end of December 31, 2010 (structural benchmark);

- Adoption of an IT master plan for the tax department (DGID) (after its audit to generalize the TIN); development of a complete and integrated information system at the DGID; modernization of the information system of the customs department (DGDDI) and its extension to all units by the end of December 31, 2010 (structural benchmark);

- Generalization of the TIN to all taxpayers and to all the units of the tax and customs administration by the end of December 31, 2010 (structural benchmark);

- Generalization of the systematic use of the TIN by the DGDDI and the adoption of a deadline for the abolition of the use of nonspecific numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by the end of December 31, 2010 (structural benchmark);

- Adoption by decision of the Council of Ministers by the end of June 30, 2011 of a comprehensive strategy to reform the civil service (structural benchmark);

- Implementation of the integration and federation of all the agents at customs and at the Autonomous Port of Cotonou in the one-stop shop by the end of June 30, 2011 (structural benchmark);

- Adoption by decision of the Council of Ministers by the end of June 30, 2011 of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism (structural benchmark);

- The presentation to the National Assembly of a draft law governing pensions (based on the final report of the actuarial audit of the FNRB) by the end of December 31, 2011 (structural benchmark).

Program Monitoring

38. **Program monitoring will be based on prior actions, performance criteria, and structural and quantitative benchmarks** (Tables 1 and 2). The definitions of these actions, criteria, and benchmarks are contained in the attached Technical Memorandum of Understanding (TMU). The authorities will report the data necessary for program monitoring to the IMF, in accordance with the TMU. During the program period, the authorities will not: introduce restrictions on the making of payments and transfers for current international transactions or intensify any such restrictions without first consulting the Fund; introduce or modify multicurrency practices; conclude bilateral payments agreements not compatible with Article VIII of the IMF's Articles of Agreement; nor introduce restrictions on imports for balance of payments purposes. The program will be subject to semiannual reviews; the first review will be completed by December 31, 2010, and the second review by June 30, 2011.

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period March–December 2011
(In billions of CFA francs)

	March 31, 2010	June 30, 2010 performance criteria	September 30, 2010 indicative targets	December 31, 2010 performance criteria
	Prel.	Prog.	Prog.	Prog.
A. Quantitative Performance Criteria and Indicative Targets [1]				
(Cumulative amount since the beginning of January 2010) [1]				
Net domestic financing of the government [2 3]	49.5	-37.0	-25.4	-15.3
Basic primary balance (excluding grants)	-6.2	37.8	1.9	-10.5
Memorandum Item: Budgetary Assistance	0.0	10.0	20.9	38.3
B. Continuous Quantitative Performance criteria				
Accumulation of external payments arrears	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year [4]	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year [4]	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0
C. Indicative Targets				
Total revenue (cumulative amount since the beginningt of January 2010)	127.5	315.5	494.6	681.9
Payment orders issues outside the expenditure chain [5]	2.0	4.6	7.5	10.6

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

[2] The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast

[3] If external budgetary assistance exceeds the amount projected in excess of more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.

[4] Debt is considered non-concessional if the difference between the present value (PV) of the debt and its nominal value, as percentage of the nominal value of the debt, is lower than 35 percent.

[5] Stock of payment orders issued since the beginning of January 2010 and not yet regularized at each test date.

Table 2. Benin: Prior Actions and Structural Benchmarks for 2010–11

Measures	Date	Rationale
The launch of an offer for the implementation by end-December 2010 of a one-stop window for port operations at Port of Cotonou.	Prior Action	The authorities aim to contain the decline in revenue by enhancing tax and customs administration.
The increase by 10 CFAF/kWh on average of all electricity tariffs	Prior Action	The authorities aim to improve the financial situation of the electricity company (SBEE) and reduce government subsidies.
The adoption by the Council of Ministers of all implementing decrees of the Public Procurement Code.	September 30, 2010	The authorities want to create fiscal space for poverty-reduction expenditure and public infrastructure by improving the efficiency of public expenditure.
The submission to the National Assembly of legislation introducing the personal income tax.	October 31, 2010	The authorities aim to contain the decline in revenue by widening the tax base and reducing tax rates, and by improving the rationality of the tax system.
The extension of the ASYCUDA++ information system to twelve (12) additional regional customs offices.	December 31, 2010	The authorities aim to improve the collection of customs revenue to expand the fiscal space for infrastructure investment and measures to reduce poverty.
The adoption of an IT master plan for the tax department (DGID) (after its audit to generalize the TIN); the development of a complete and integrated information system at the DGID; the modernization of the information system of the customs department (DGDDI) and its extension to all units.	December 31, 2010	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The generalization of the TIN to all taxpayers and all the units of the tax and customs administration.	December 31, 2010	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The generalization of the systematic use of the TIN by the DGDDI and the adoption of a deadline for the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 299999999949).	December 31, 2010	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The adoption by decision of the Council of Ministers of a comprehensive strategy to reform the civil service.	June 30, 2011	The authorities aim to limit the expansion of the wage bill and to maintain fiscal space for infrastructure investment and measures to reduce poverty.
The implementation of the integration and federation of all the agents at customs and at the Port Autonome de Cotonou in the one-stop window.	June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors, and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism.	June 30, 2011	The authorities aim to maintain the financial viability of the electricity company (SBEE).
The presentation to the National Assembly of a draft law governing pensions based on the final report on the actuarial audit of FNRB.	December 31, 2011	The authorities aim to contain the impact of FRNB's deficit on public finances by strengthening its financial viability.

Appendix I—Attachment II

Technical Memorandum of Understanding

May 27, 2010

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

I. Definitions

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

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

(a) Debt is understood to mean a direct, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

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

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

(b) A loan is considered concessional if, on the date on which the contract was signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). Specifically, the 10-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years while the six-month average of CIRRs will be used for loans with shorter maturities. To both the 10-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1 percent for repayment periods of 15–19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

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

II. Prior Actions

4. The government has undertaken with IMF staff to implement the following measures before presenting the program to the Executive Board of the IMF (MEFP Table 2). The implementation of these measures will be verified five days before presentation of the program:

- the launch of a call for bids for the establishment by end-December 2010 of a one-stop shop for port operations at the Port of Cotonou.

- the increase by CFAF 10 per kWh on average of all electricity tariffs.

III. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

Definition

5. Net domestic financing of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations; Treasury bills and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDR).

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

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

8. The government will decide on the use of resources from the divestiture of parts of corporations, including the use of the proceeds from the sale of Benin Telecom and the cement company (Société des Ciments d'Onigbolo—SCO), in consultation with the staff of the International Monitory Fund (IMF). The ceiling on net domestic financing of the government will be adjusted if disbursements of external budgetary assistance (excluding IMF financing and assistance under the Highly Indebted Poor Countries [HIPC] Initiative), net of debt service obligations (excluding repayment obligations to the IMF) and arrears payments, exceed or fall short of program forecasts. If disbursements exceed the programmed amounts, the ceiling will be lowered by the amount of budgetary assistance received in excess of the programmed amount, except if the excess is allocated to the settlement of domestic arrears. Conversely, if at the end of a quarter disbursements fall short of the amount programmed for that quarter, the ceiling will be raised by the amount of the shortfall, up to a maximum of CFAF 10 billion at end-June 2010, CFAF 20 billion at end-

September 2010, and CFAF 35 billion at end-December 2010 (cumulative since January 1, 2010). Budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, IMF resources, and debt relief under the HIPC and Multilateral Debt Relief Initiatives). The amount of budgetary assistance provided in the program is CFAF 10 billion at end-June 2010, CFAF 20.9 billion at end-September and CFAF 38.3 billion at end-December 2010 (cumulative since January 1, 2010).

Indicative targets and performance criteria

9. The ceiling on net domestic financing of the government is set at CFAF 37.0 billion for end-June 2010, CFAF -25.4 billion for end-September 2010, and CFAF -15.3 billion for end-December 2010. The ceiling is a performance criterion for end-June 2010 and end-December 2010; and an indicative target for end-September 2010.

Reporting deadline

10. Detailed data on domestic financing of the government will be reported on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

B. Basic Primary Fiscal Balance

Definition

11. The basic primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and fiscal expenditure (on a payment order basis), minus the payments of interest on debt and capital expenditure financed by foreign grants and net lending.

Performance criterion

12. For 2010, the ceiling on the basic primary fiscal balance (excluding grants) is a balance of not less than CFAF 37.8 billion at end-June, CFAF 1.9 billion at end-September and CFAF -10.5.8billion at end-December. It is a performance criterion for end-June 2010 and end-December 2010 and an indicative target for end-September 2010.

Reporting deadline

13. Provisional data on the basic primary fiscal balance, including data produced by the automated fiscal management system (SIGFiP), will be reported on a monthly basis, within four weeks of the end of the month. The definitive data will be reported four additional weeks after reporting of the provisional data.

C. Accumulation of New Domestic Payments Arrears by the Government

Definition

14. Domestic payments arrears are defined as domestic payments that are due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period; arrears in payments on government domestic debt are defined as the stock of debt that is due but not paid at the end of a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (CAA, Caisse Autonome d'Amortissement) and the Treasury record and update the accumulation of domestic payments arrears, as well as their settlement.

Performance criterion

15. The government undertakes not to accumulate any new payments arrears on government domestic debt, and not to accumulate further arrears on obligations other than public debt for periods of more than 90 days. The non-accumulation of domestic payments arrears will be continuously monitored throughout the program. The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c and of government in paragraph 2 apply here.

Reporting deadline

16. Data on the balance, accumulation, and repayment of domestic payments arrears on public debt will be reported on a monthly basis, within eight weeks of the end of the month.

D. Nonaccumulation of External Payments Arrears by the Government

Definition

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

Performance criterion

18. In the context of the program, the Beninese government undertakes not to accumulate external payments arrears, with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. The performance criterion on the nonaccumulation of external payments arrears will be continuously monitored throughout the program.

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

Definition

19. This performance criterion applies not only to debt as defined in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009, but also to commitments contracted or guaranteed (including lease-purchase contracts) for which no

value have been received. This criterion also applies to the guaranteeing of private sector debt by the government, which consequently constitutes a contingent liability of the government, as defined in paragraph 20. External debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

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

Performance criterion

21. No nonconcessional external borrowing will be contracted or guaranteed by the government for the duration of the 2010–13 program. Changes to the ceiling to accommodate nonconcessional external debt can be made during the course of the program after approval of the IMF Executive Board. Any such changes would be proposed solely for specific investment projects whose financial viability and profitability have been evaluated and approved by a recognized institution, and on condition that the loan does not seriously exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the World Bank and the International Monetary Fund.

22. The government also undertakes not to contract or guarantee any external loan during the implementation of the 2010–13 program without first having determined its concessionality with IMF staff.

Reporting deadline

23. Data on any debt (terms and creditors) contracted or guaranteed by the government will be reported each month, within four weeks of the end of the month.

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

Definition

24. The definitions in paragraphs 19 and 20 also apply to this performance criterion.

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

Performance criterion

26. In the context of the program, the government undertakes not to contract or guarantee short-term nonconcessional external debt. The definition of nonconcessional in paragraph 3b applies here.

27. The government also undertakes not to contract or guarantee any short-term external debt without having first determined its concessionality with IMF staff.

28. On December 31, 2009, Benin had no short-term external debt.

IV. Quantitative Benchmarks

A. Floor for Government Revenue

Definition

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

Indicative targets

30. For 2010, the indicative targets for total government revenue are set at CFAF 315.5 billion for end-June, CFAF 494.6 billion for end-September and CFAF 618.9 billion for end-December (cumulative since January 1, 2010).

Reporting deadline

31. The government will report the amount of tax revenue to Fund staff on a monthly basis in the TOFE, by the end of the month following that to which the report applies.

B. Ceiling on Exceptional Payment Procedures

Definition

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

Indicative targets

33. The Beninese government undertakes to limit total expenditures effected by exceptional payment procedures to a ceiling of CFAF 4.6 billion at end-June 2010, CFAF 7.5 billion at end-September 2010, and CFAF 10.6 billion at end-December 2010 (cumulative from January 1, 2010).

Reporting deadline

34. The government will report the amount of exceptional payment procedures to Fund staff within four weeks following the test date.

V. Structural Benchmarks

35. The following measures will serve as structural benchmarks (MEFP Table 2):

- Adoption by the Council of Ministers of all implementing decrees for the Public Procurement Code by September 30, 2010;

- Submission to the National Assembly of legislation introducing the personal income tax by October 31, 2010;

- Expansion of the ASYCUDA++ computer system to 12 additional workstations in regional customs offices by December 31, 2010;

- Adoption of an IT master plan for the tax department (DGID) (after its audit to generalize the taxpayer identification number, TIN), development of a complete and integrated information system at the DGID, modernization of the computer system in the customs department (DGDDI) and its extension to all units, by December 31, 2010;

- Generalization of the taxpayer identification number (TIN) to all taxpayers and to all units of the tax and customs administrations, by December 31, 2010;

- Generalization of the systemic use of the TIN by the DGDDI and the adoption of a deadline for the abolition of the use of nonspecific numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by December 31, 2010;

- Adoption by the Council of Ministers by June 30, 2011, of a comprehensive strategy for the reform of the civil service;

- Implementation of the integration and federation of all the agents at customs and at the Autonomous Port of Cotonou in the one-stop shop by June 30, 2011;

- Adoption by decision of the Council of Ministers by June 30, 2011, of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism;

- Presentation to the National Assembly of a draft law governing pensions (based on the final report on the actuarial audit of the FNRB) by December 31, 2011.

VI. Additional Information for Program Monitoring

A. Government Finance

36. The government will provide the Fund with:

- the monthly government flow-of-funds table (TOFE), to be submitted within six weeks of the end of each month;

- the list of expenditures authorized by *ordres de paiement* or other exceptional payment procedures after January 1, 2010;

- detailed monthly revenue and expenditure estimates, including for social expenditure, the settlement of arrears, and expenditure financed under the HIPC Initiative;

- comprehensive monthly data on domestic financing (bank and nonbank) of the budget, including the claims held by the nonbank private sector. These data will be reported every month, within four weeks of the end of the month; and

- quarterly data on implementation of the public investment program, including a breakdown of financing sources. These data will be reported on a quarterly basis, within four weeks of the end of the quarter.

B. Monetary Sector

37. The government will provide the Fund monthly, within eight weeks of the end of the month, with:

- a consolidated balance sheet of the monetary institutions and, where necessary, the balance sheets of certain individual banks;

- a monetary survey;

- deposit and lending rates; and

- the customary banking supervision indicators for bank and nonbank financial institutions and, where necessary, the same indicators for certain individual institutions.

C. External Sector

38. The government will provide the Fund, within 12 weeks of the end of each quarter, with:

- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur;
- monthly data on import and export values, prices and volumes;
- other balance of payments data, including services, private transfers, official transfers, and capital transactions; and
- quarterly data on the stock of external debt, external debt service, the signing of external loans, and disbursements of external loans.

D. Real Sector

39. The government will provide Fund staff with:

- disaggregated monthly consumer price indices, on a monthly basis, within two weeks of the end of the month;
- provisional national accounts; and
- any revision of the national accounts, within eight weeks of the revision date.

E. Structural Reforms and other Data

40. The government will provide the Fund with:

- all decisions, orders, laws, decrees, ordinances, and circulars relating to the economy of Benin, within 10 days of their entry into effect; and
- all studies or research papers relating to the economy of Benin, within two weeks of their publication.

INTERNATONAL MONETARY FUND

INTERNATIONAL DEVELOPMENT ASSOCIATION

BENIN

Joint IMF/World Bank Debt Sustainability Analysis 2010[1]

Prepared by the Staffs of the International Monetary Fund and

the International Development Association

Approved by Michael Atingi Ego and Thomas Dorsey (IMF) and
Sudarshan Gooptu and Sudhir Shetty (IDA)

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This debt sustainability analysis (DSA) confirms the result from previous DSAs that Benin's risk of debt distress remains moderate. Under baseline projections, all external debt indicators remain below their indicative thresholds over the long run. However, this assumes that the fiscal stance is put back onto a sustainable path over the medium term, following the slippages in 2009. Furthermore, debt ratios move rapidly toward the thresholds or breach them under a less favorable no reform scenario, assuming slower growth of GDP and exports, as well as foreign direct investments in line with historical averages. This underlines the importance of fiscal adjustment and implementation of structural reforms aimed at enhancing competitiveness and growth, and to finance the fiscal deficit primarily through external grants and highly concessional loans.

[1] Prepared by IMF and IDA staff in collaboration with the Beninese authorities and staff of the African Development Bank. The fiscal year for Benin is January 1–December 31. The previous DSA update was performed in June 2009 (IMF Country Report No. 09/87, IDA Report No. 51780).

I. BACKGROUND

1. **Using the debt sustainability framework for low-income countries, this DSA assumes financing needs to be covered primarily with concessional external financing.** Debt sustainability is assessed in relation to country-specific policy-dependent thresholds for debt stock and debt service burden.[2] This DSA is conducted on a gross basis.[3]

2. **Benin's risk of debt distress was classified as moderate in the previous DSA in June 2009.**[4] Under the baseline scenario, all external debt indicators were projected to remain below their indicative thresholds over the long run. However, it was noted that debt ratios move rapidly toward the thresholds or breach them under less favorable scenarios.

3. **Following debt relief under the HIPC and MDRI initiative, Benin's external debt remains at comfortable levels.** Benin reached the completion point under the Enhanced HIPC initiative in 2003, and benefited from further debt relief under the MDRI initiative in 2006. As a result, Benin's external debt stock declined from 43.0 percent of GDP at end-2002 to 15.1 percent of GDP at end-2009.[5] In line with this reduction, external debt service was reduced from 2.2 percent of GDP to 0.6 percent of GDP over the same period. At end-2009, 88.5 percent of the external public debt was to multilateral creditors and 11.5 percent to bilateral creditors.

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[2] Debt sustainability is assessed in relation to policy-dependent thresholds for the present value of external debt and the external debt service burden. Benin's CPIA rating for 2006–08 was 3.57. A rating between 3.25 and 3.75 reflects medium performance; a rating below 3.25 corresponds to weak performance, and a rating above 3.75 corresponds to strong performance. Medium performance implies the following external debt sustainability thresholds: a net present value (PV) of debt-to-GDP ratio of 40 percent, and PV of debt-to-exports ratio of 150 percent, and PV of debt-to-revenue ratio of 250 percent; a debt service-to-exports ratio of 20 percent and a debt service-to-revenue ratio of 30 percent.

[3] The quality of data underlying the DSA remains uneven. The DSA is based primarily on data provided by the public debt management department of the Ministry of Finance of Benin (la Caisse Autonome d'Amortissement). Data on private external debt is not available. In 2010, West AFRITAC is providing technical assistance to improve debt data management.

[4] IMF Country Report No. 09/87, IDA Report No. 51780

[5] Since no data on private external debt is available, overall external debt stock is here equal to the public or publicly guaranteed external debt.

4. **Government borrowing from the regional market increased significantly since 2006.** Outstanding regional government debt amounted to 11.1 percent of GDP at end-2009, compared to 1.5 percent at end-2006. This increase partly reflects the authorities' interest in promoting the expansion of the regional debt market and, in 2009, the need to cover the financing gap. Borrowing conditions on this market are, however, nonconcessional and the authorities are committed to a prudent borrowing strategy. Domestic borrowing is therefore expected to decrease as share of GDP. Just over 40 percent of the regional public debt is accounted for by central bank secured bonds, while the remainder comprises treasury bills and securitized wage arrears.

II. Underlying DSA Assumptions

5. **This updated DSA is affected by the weaker fiscal position in 2009**. The higher deficit was financed both by external resources and increased borrowing on the regional market. In addition, the authorities have revised upward their estimation of non-cotton exports in 2008 and 2009, and recategorized financial inflows, which results in higher foreign direct investments from 2000 to 2005 compared to the previous DSA.[6]

6. **Except for an update in the medium-term macroeconomic framework following the developments in 2009, this DSA maintains the main macroeconomic and policy assumptions used in the previous DSA (Box 1).** In particular, the baseline projections are anchored on the assumptions that: 1) key structural reforms aimed at enhancing competitiveness and growth would be adopted over the medium term,[7] 2) the authorities would proceed with their plans to improve public infrastructure, and 3) fiscal policy would aim at maintaining macroeconomic stability. Under these conditions, real GDP growth is expected to recover after the crisis period 2009–10 to a sustainable annual rate of 6 percent over the medium- to long-term, and average annual inflation would not exceed

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[6] This particular revision gives a more favorable historic scenario in the DSA.

[7] Key structural reforms likely to enhance growth already under way are the restructuring of public utilities (especially electricity and telecommunications), major investments in the Port of Cotonou and the introduction of a one stop window in the Port of Cotonou. These reforms are supported by a new IMF Extended Credit Facility (ECF) arrangement, which envisages the restructuring of main public utilities and the modernization of customs administration over the next three years.

3 percent in the long run, consistent with the assumptions of the World Bank Global Economic Prospects 2009 and the Benin Country Economic Memorandum.[8]

7. **The fiscal deterioration in 2009 is expected to be partly reversed in 2010.** Large expenditure overruns amid a weak revenue performance led to a widening of the overall fiscal deficit (on a payment-order basis) from 3.5 percent of GDP in 2008 to 7.3 percent in 2009. A strong fiscal adjustment effort, supported by measures aimed at strengthening revenue collection[9] and controlling expenditure execution, are projected to reduce the overall deficit to 5.9 percent of GDP, and the basic primary deficit to 0.3 percent of GDP in 2010.

Box 1. Macroeconomic assumptions

Medium term (2011–15): The projections are consistent with the macroeconomic framework of the IMF Article IV Consultation and reflect (i) the **impact of the crisis**, and (ii) **fiscal policies** aimed at maintaining macroeconomic stability, protecting vulnerable groups, and enhancing investment in public infrastructure. A key assumption is that concessional financing from external donors would continue to be available throughout the projection period. In particular, sufficient concessional funds would be available to fill the financing gap in 2010, creating a fiscal cushion to contain the impact of the crisis without compromising debt sustainability. The analysis also assumes the implementation of **structural reforms** aimed at increasing efficiency and competitiveness and improving the business climate. As a result, after slowing down to 2 ½-3 ½ percent in 2009–10, real GDP growth is projected to recover to its long-term sustainable level of 6 percent, while fiscal prudence and the anchor of the fixed exchange rate peg are expected to keep inflation to below 3 percent. After the fiscal deterioration in 2009, the primary fiscal deficit would be reduced to 0.2 percent of GDP by 2015, reflecting improvements in public fiscal

[8] Benin; *Constraints to Growth and Potential for Diversification and Innovation*, Country Economic Memorandum, World Bank, June 18, 2009, available at http://web.worldbank.org/external/default/main?pagePK=51187349&piPK=51189435&theSitePK=322639&menuPK=64187510&searchMenuPK=322668&theSitePK=322639&entityID=000333037_20090721001130&searchMenuPK=322668&theSitePK=322639

[9] The authorities will implement a number of measures aimed at improving efficiency in tax and customs administration and at broadening the tax base. During the next three years, this will include measures to improve the information systems of the tax and customs administration, the introduction of a one-stop window in the Port of Cotonou and generalization of the TIN to all tax payers and services of the tax and customs offices. A personal income tax will also be introduced.

management and efforts to contain recurrent expenditures. The current account deficit is expected to narrow in the medium term as exports recover and the fiscal adjustment reduces the demand for imports.

Long term (2015–30): long-term projections reflect the impact of the structural reforms implemented in previous periods and the continuation of policies aimed at maintaining macroeconomic stability. Under these assumptions:

- **Real GDP growth** would average 6 percent following its growth potential;
- **Inflation** would remain at or below 3 percent;
- **The primary fiscal deficit** would stabilize at about 1 percent of GDP, following improvements in revenue collection and continued efforts to contain nonpriority recurrent expenditures, in particular the wage bill;
- **The current account deficit** would remain at about 5 percent of GDP, reflecting growing imports associated with economic expansion and foreign direct investment (FDI), as well as continuing inflows of remittances;
- Improved infrastructure and a more favorable business climate would attract net **foreign direct investment** equivalent to about 2 percent of GDP per year.
- Reflecting continued support from donors for Benin's infrastructural development and reform efforts, about 60 percent of total gross financing needs are assumed to be covered by external grants.
- Over the medium- and long-term, the DSA assumes that the authorities will continue to benefit from concessional borrowing mainly from multilateral donors, with a grant element equivalent to the average of the last 5 years.[10]
- Reflecting the authorities' commitment to a prudent borrowing strategy, government borrowing on the regional market is expected to decrease somewhat from 11.1 percent of GDP at end-2009 to 4.5 percent of GDP at the end of the period.
- The real interest rate on domestic currency debt is expected to average just over 4 percent.

[10] Of the current external financing for Benin, the African Development Bank and the World Bank provide the highest level of concessionality. Since the exact composition of new multilateral borrowing is unknown, a larger share of multilateral borrowing is assumed to come from other multilaterals in the long run. This explains the slight decrease in the grant element in the long term compared with the medium term (figure 1).

III. EXTERNAL DSA

8. **Under baseline assumptions, all external debt and debt service ratio remain well below the policy-dependent thresholds throughout the projection period (Figure 1).** The PV of external debt is projected to decline to just over 9 percent of GDP in the long run, and debt service payment ratios would remain below 3 percent. The PV of debt-to-exports ratio would remain well below the 150 percent threshold.

9. **External vulnerability indicators worsen only slightly under standard stress test conditions.** In particular, a shock to exports would lead to a marginal breach over three years of the threshold for the debt-to-exports ratio. However, all other indicators would stay under their respective thresholds with a large margin under the different alternative scenarios.

10. **The risk of debt distress would increase markedly in the absence of structural reforms.** The baseline scenario assumes GDP growth to average 6 percent in the long run, which is motivated by the continued implementation of structural reforms. Should these reforms not materialize, a "no reform scenario" characterized by slower real GDP and exports growth; as well as foreign direct investment and primary fiscal deficits close to historical averages, would lead to a breach of the debt-to-exports criteria by 2022.[11] Also the debt-to-GDP and the debt-to-revenue ratio would increase markedly over the long term.

11. **This DSA also tests the debt trajectory implication of a limited amount of nonconcessional borrowing.** In August 2009, the IMF Executive Board approved new guidelines on external debt limits in Fund supported programs.[12] The new framework moves away from a single design for concessionality requirements towards a more flexible approach, taking into account members' debt vulnerabilities and their macroeconomic and public financial management capacity.[13]

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[11] In the no reform scenario annual real GDP growth is assumed to average 4.0 percent. FDI are assumed to be in line with their historical average (1.8 percent of GDP) and exports have been reduced by 2.0 percent of GDP compared to the baseline scenario (to 15.5 percent of GDP).

[12] Available at http://www.imf.org/external/pp/longres.aspx?id=4359.

[13] This DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, January 22, 2010 (available at http://www.imf.org/external/pp/longres.aspx?id=4419)

12. **In the classification of low-income countries for the purpose of debt limits conducted in December 2009, Benin was classified as a low capacity country.** According to the new guidelines concessionality requirements for lower capacity countries will continue to apply on a debt by debt basis with a minimum concessionality requirement of 35 percent. However, a certain amount of nonconcessional borrowing could be exempted from this requirement provided that it does not push the country into a higher debt vulnerability category. Any such borrowing should only be undertaken to finance projects whose financial viability and profitability have been evaluated and approved by a reputable institution and be accompanied by continued strengthening of project selection systems and institutions.

13. **Allowing for a limited amount of nonconcessional borrowing does not significantly alter the debt risk profile.** Given the substantial margins from breaching any of the thresholds, and in line with the new guidelines on external debt limits, this analysis tests for a limited amount of non-concessional borrowing.[14] The addition of CFAF 150 billion of nonconcessional borrowing during the period 2010–12 does not lead to any breach of the thresholds and, therefore, does not cause a change of debt vulnerability category.

IV. PUBLIC DSA

14. **Public debt indicators are projected to decline somewhat over time (Figure 2).** Under the baseline scenario, the debt-to-GDP ratio is set to fall to around 14 percent and the debt-to-revenue ratio to under 60 percent. The debt service-to-revenue ratio is expected to stabilize close to 3 percent in the long term.

15. **Stress tests show a somewhat less favorable development.** Under the most extreme shock scenario[15] the debt-to-GDP would increase to 22 percent and the debt-to-revenue ratio to 89 percent, while the debt service-to-revenue would decrease somewhat to 4.6 percent by 2030. The stress test therefore shows the largest sensitivity to lower growth of GDP, which again underlines the importance of continued structural reforms.

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[14] In this alternative scenario, an amount of non-concessional financing limited to the value of CFAF 150 billion in present value terms (4.5 percent of GDP) for the period 2010–12 has been added to the baseline.

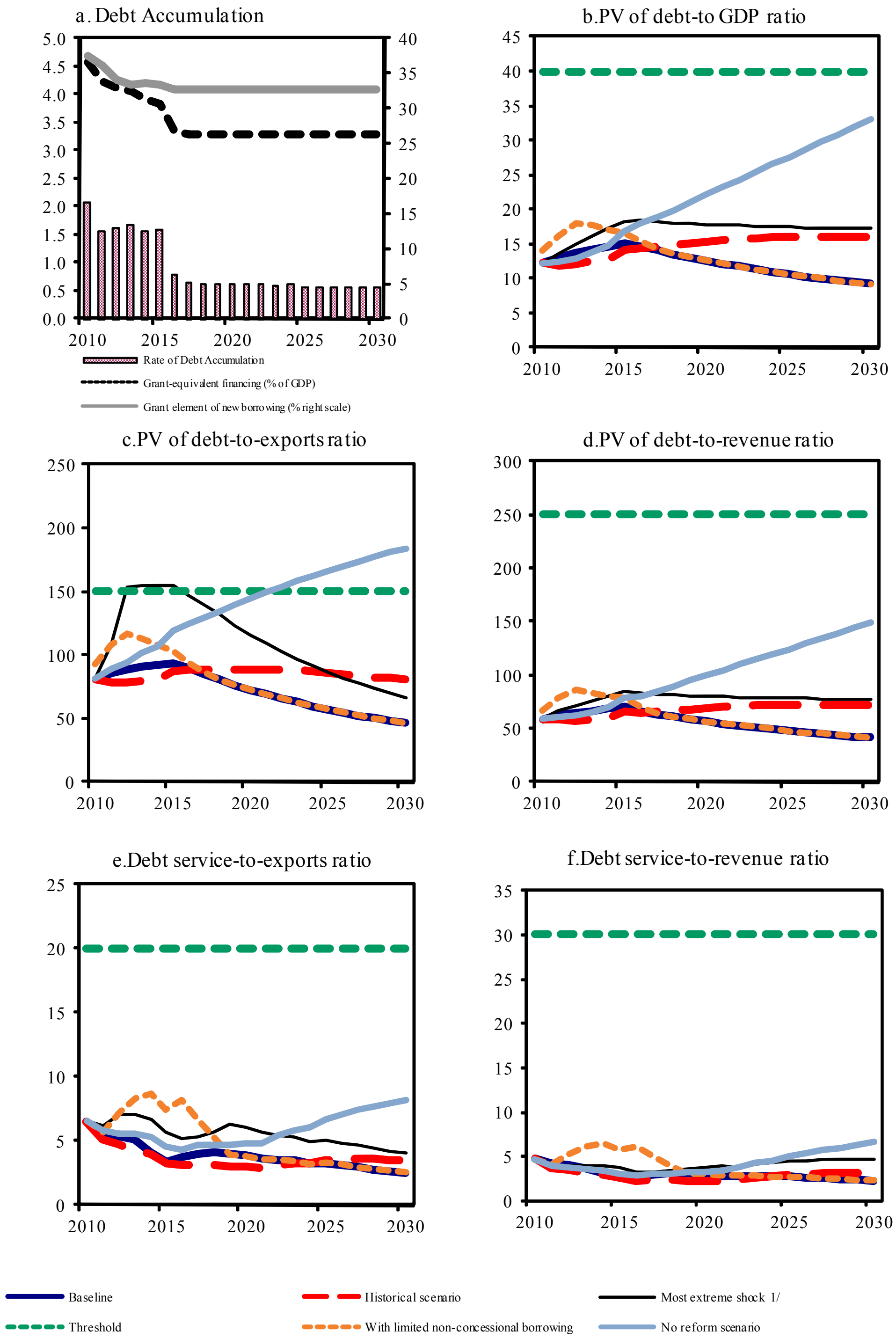
[15] For the debt-to-GDP ratio and the debt-to-revenue ratio the most extreme shock is represented by a temporary slowdown in real growth to 3.1 percent in 2011–12, while for the debt service-to-revenue ratio it is represented by a one-time 30 percent real depreciation in 2011.

V. DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

16. **Altogether, this DSA confirms that Benin faces a moderate risk of debt distress, which underlines the importance of proceeding with fiscal adjustment and structural reforms**. The analysis highlights the need to address the fiscal slippages in 2009, and put the fiscal situation back onto a sustainable path over the medium term. The prompt implementation of structural reforms will also be critical to enhance growth, expand exports, attract foreign direct investments and contain the fiscal deficit, thus improving the long-term debt dynamics. The authorities should also continue to cover their financing needs primarily with external concessional assistance. However, given a large margin to the debt sustainability thresholds, a limited amount of nonconcessional borrowing could be accommodated without risking a marked change in the overall debt risk profile.

17. **The authorities concur with the overall conclusions of the DSA, which is in line with their own debt sustainability analysis.** As in the past, the authorities continue to be committed to a prudent borrowing strategy according to which financing needs will be covered primarily through the mobilization of grants and highly concessional borrowing, with only limited use of regional borrowing as a last source of financing. The authorities also share the view that a prudent fiscal policy will be necessary to preserve fiscal and debt sustainability over the medium- to long- term.

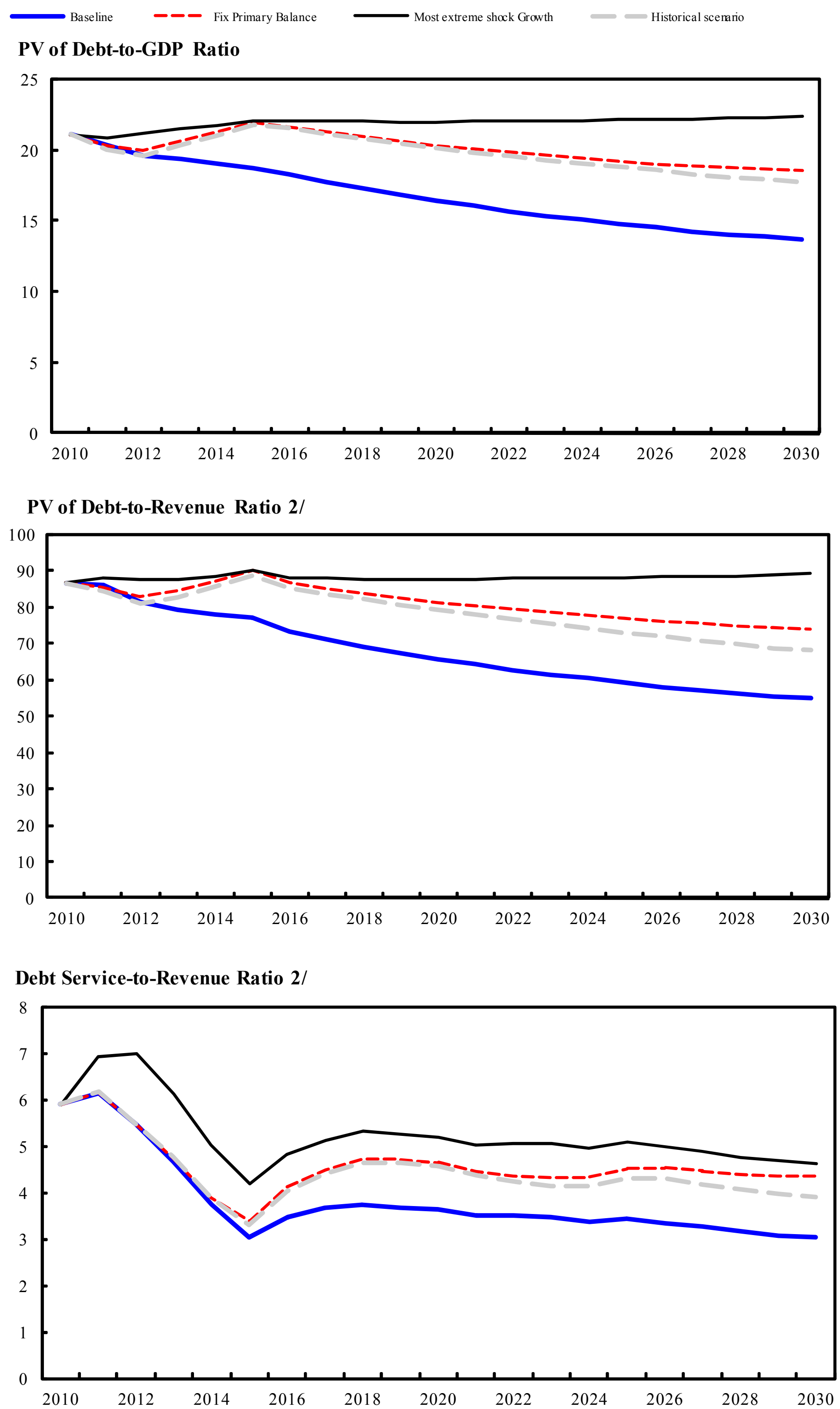
Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	Standard 0 Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	**11.7**	**16.7**	**15.1**			**16.0**	**17.4**	**18.5**	**19.5**	**20.3**	**21.1**		**17.5**	**13.3**	
o/w public and publicly guaranteed (PPG)	11.7	16.7	15.1			16.0	17.4	18.5	19.5	20.3	21.1		17.5	13.3	
Change in external debt	0.7	5.0	-1.7			0.9	1.4	1.1	1.0	0.8	0.8		-0.6	-0.3	
Identified net debt-creating flows	3.8	3.4	7.3			5.2	5.3	4.4	4.0	3.7	2.4		2.5	2.6	
Non-interest current account deficit	**9.6**	**7.9**	**8.3**	**6.6**	**2.1**	**7.6**	**7.4**	**7.0**	**6.7**	**6.5**	**5.2**		**5.3**	**5.4**	5.3
Deficit in balance of goods and services	15.5	13.3	14.5			13.6	12.3	12.0	11.6	11.2	11.7		12.6	14.9	
Exports	16.8	17.6	15.3			15.0	15.1	15.3	15.6	15.9	16.2		17.3	20.0	
Imports	32.4	30.9	29.8			28.6	27.4	27.3	27.2	27.1	27.9		30.0	34.9	
Net current transfers (negative = inflow)	-5.6	-5.4	-6.1	-5.8	0.8	-5.6	-4.5	-4.6	-4.5	-4.4	-6.0		-6.0	-6.0	-6.0
o/w official	-2.8	-3.0	-4.0			-3.6	-2.4	-2.3	-2.2	-2.1	-3.0		-5.3	0.5	
Other current account flows (negative = net inflow)	-0.3	0.0	-0.1			-0.4	-0.4	-0.4	-0.3	-0.3	-0.5		-1.3	-3.5	
Net FDI (negative = inflow)	**-4.7**	**-2.6**	**-1.4**	**-1.8**	**1.2**	**-2.2**	**-1.7**	**-2.0**	**-2.0**	**-2.0**	**-2.0**		**-2.0**	**-2.1**	-2.1
Endogenous debt dynamics 2/	**-1.2**	**-1.9**	**0.4**			**-0.2**	**-0.4**	**-0.6**	**-0.7**	**-0.8**	**-0.8**		**-0.8**	**-0.6**	
Contribution from nominal interest rate	0.5	0.1	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.2	0.1	
Contribution from real GDP growth	-0.4	-0.5	-0.5			-0.4	-0.7	-0.9	-1.0	-1.1	-1.1		-1.0	-0.7	
Contribution from price and exchange rate changes	-1.2	-1.6	0.6			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-3.0**	**1.7**	**-8.9**			**-4.3**	**-3.9**	**-3.3**	**-3.0**	**-2.9**	**-1.6**		**-3.1**	**-2.9**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	10.8			12.2	12.9	13.6	14.2	14.7	15.2		12.6	9.2	
In percent of exports	...	...	70.4			81.3	85.7	88.9	91.2	92.6	93.8		72.5	46.2	
PV of PPG external debt	**...**	**...**	**10.8**			**12.2**	**12.9**	**13.6**	**14.2**	**14.7**	**15.2**		**12.6**	**9.2**	
In percent of exports	**...**	**...**	**70.4**			**81.3**	**85.7**	**88.9**	**91.2**	**92.6**	**93.8**		**72.5**	**46.2**	
In percent of government revenues	**...**	**...**	**58.6**			**59.1**	**63.2**	**64.9**	**66.7**	**68.9**	**71.2**		**56.6**	**41.6**	
Debt service-to-exports ratio (in percent)	**2.8**	**-0.7**	**-0.2**			**6.5**	**5.7**	**5.4**	**5.1**	**4.1**	**3.3**		**3.8**	**2.6**	
PPG debt service-to-exports ratio (in percent)	**2.8**	**-0.7**	**-0.2**			**6.5**	**5.7**	**5.4**	**5.1**	**4.1**	**3.3**		**3.8**	**2.6**	
PPG debt service-to-revenue ratio (in percent)	**2.3**	**-0.6**	**-0.2**			**4.7**	**4.2**	**4.0**	**3.7**	**3.1**	**2.5**		**3.0**	**2.3**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.3	0.5			0.5	0.5	0.5	0.5	0.5	0.4		0.6	1.4	
Non-interest current account deficit that stabilizes debt ratio	8.9	2.8	9.9			7.3	6.0	5.9	5.7	5.6	4.4		5.9	5.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.6	5.0	2.7	4.2	1.1	3.2	4.4	5.5	6.0	6.0	6.0	5.2	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	11.9	15.3	-3.3	6.3	9.3	7.8	1.7	1.6	1.5	1.3	1.3	2.5	2.5	2.4	2.5
Effective interest rate (percent) 5/	4.8	1.5	1.7	1.7	1.2	2.0	1.9	1.8	1.7	1.6	1.6	1.8	1.2	1.1	1.2
Growth of exports of G&S (US dollar terms, in percent)	49.1	26.9	-13.8	11.6	19.0	9.1	7.0	8.6	9.6	9.4	9.4	8.8	10.2	10.2	10.2
Growth of imports of G&S (US dollar terms, in percent)	56.9	15.7	-4.2	12.5	18.8	6.7	1.6	6.7	7.1	7.1	10.3	6.6	10.3	10.3	10.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.5	36.1	34.0	33.4	33.6	33.4	34.6	32.7	32.7	32.7
Government revenues (excluding grants, in percent of GDP)	20.6	19.4	18.4			20.6	20.5	21.0	21.3	21.3	21.3		22.2	22.2	22.2
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.2			0.4	0.4	0.4	0.4	0.4	0.4		0.6	1.3	
o/w Grants	0.2	0.1	0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.4	1.0	
o/w Concessional loans	0.0	0.0	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.3	4.2	4.1	4.0	3.9	3.8		3.3	3.3	3.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			88.2	69.9	69.0	68.7	70.0	70.6		76.7	76.7	76.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.5	6.7	6.7			7.4	7.9	8.4	9.1	9.7	10.5		15.9	36.4	
Nominal dollar GDP growth	17.1	21.1	-0.7			11.3	6.2	7.1	7.5	7.3	7.3	7.8	8.7	8.6	8.7
PV of PPG external debt (in Billions of US dollars)			0.8			0.9	1.0	1.1	1.3	1.4	1.6		2.0	3.3	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	1.5	1.6	1.7	1.6	1.6	1.7	0.6	0.6	0.6
Gross remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.3		0.4	0.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.5			11.9	12.6	13.3	13.9	14.4	14.8		12.3	9.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	59.9			70.6	74.2	76.6	78.8	80.3	81.4		63.4	41.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	-0.2			5.7	4.9	4.7	4.4	3.6	2.9		3.3	2.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
It does not include external project grants that are assumed to cover about 60 percent of total gross financing needs.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	12	13	14	14	15	15	**13**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	12	12	12	12	13	14	**15**	16
A2. New public sector loans on less favorable terms in 2010-2030 2	12	14	15	16	17	18	**18**	17
A.3 No reform scenario	12	12	13	14	15	17	**22**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	12	13	14	15	15	16	**13**	10
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	12	14	17	18	18	19	**15**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	12	14	15	16	16	17	**14**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	12	13	15	15	16	16	**13**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	15	16	16	17	**14**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	12	18	19	20	21	21	**18**	13
PV of debt-to-exports ratio								
Baseline	81	86	89	91	93	94	**73**	46
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	81	79	79	80	81	87	**89**	80
A2. New public sector loans on less favorable terms in 2010-2030 2	81	90	97	103	108	112	**103**	86
A.3 No reform scenario	81	89	94	102	107	119	**144**	184
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	81	85	89	91	92	93	**72**	46
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	81	109	154	155	155	155	**116**	66
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	81	85	89	91	92	93	**72**	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	81	88	95	97	98	99	**76**	47
B5. Combination of B1-B4 using one-half standard deviation shocks	81	91	108	110	111	112	**85**	52
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	81	85	89	91	92	93	**72**	46
PV of debt-to-revenue ratio								
Baseline	59	63	65	67	69	71	**57**	42
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	59	58	57	58	60	66	**69**	72
A2. New public sector loans on less favorable terms in 2010-2030 2	59	66	71	76	80	85	**80**	77
A.3 No reform scenario	59	60	62	65	69	79	**99**	149
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	59	64	67	69	71	74	**58**	43
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	59	69	83	84	85	87	**67**	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	59	66	71	73	75	78	**62**	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	59	65	70	71	73	75	**59**	42
B5. Combination of B1-B4 using one-half standard deviation shocks	59	65	73	74	76	78	**61**	43
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	59	89	92	94	97	101	**80**	59

Table 1b.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)

(In percent)

Debt service-to-exports ratio

Baseline	7	6	5	5	4	3	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	7	5	5	4	4	3	**3**	4
A2. New public sector loans on less favorable terms in 2010-2030 2	7	5	5	5	5	5	**5**	5
A.3 No reform scenario	7	6	6	6	5	5	**5**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	5	5	5	5	4	**3**	3
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	6	7	7	7	6	**6**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	5	5	5	5	4	**3**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	5	5	5	5	4	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	6	6	6	5	4	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	5	5	5	5	4	**3**	3

Debt service-to-revenue ratio

Baseline	5	4	4	4	3	3	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	5	4	3	3	3	3	**2**	3
A2. New public sector loans on less favorable terms in 2010-2030 2	5	4	4	4	4	4	**4**	5
A.3 No reform scenario	5	4	4	4	3	3	**3**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	5	4	4	4	4	3	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	5	4	4	4	4	3	**3**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	5	4	4	4	4	3	**3**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	5	4	4	4	3	3	**3**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	5	4	4	4	4	3	**3**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	5	6	5	5	5	4	**4**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	35	35	35	35	35	35	**35**	35

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	15.4	24.5	26.2			24.9	24.8	24.5	24.6	24.6	24.7		21.3	17.8	
o/w foreign-currency denominated	11.7	16.7	15.1			16.0	17.4	18.5	19.5	20.3	21.1		17.5	13.3	
Change in public sector debt	2.9	9.1	1.7			-1.3	-0.1	-0.3	0.1	0.0	0.1		-0.6	-0.2	
Identified debt-creating flows	-2.3	0.7	1.1			0.3	0.6	-0.3	-1.0	-1.1	-1.1		-0.3	-0.1	
Primary deficit	-0.6	1.4	3.6	1.0	1.2	1.4	1.5	0.9	0.1	0.1	0.2	0.7	1.0	1.0	1.0
Revenue and grants	23.6	21.2	21.5			25.0	23.7	24.1	24.5	24.4	24.4		25.0	25.0	
of which: grants	3.0	1.7	3.2			4.3	3.2	3.2	3.1	3.1	3.0		2.8	2.8	
Primary (noninterest) expenditure	22.9	22.5	25.2			25.8	25.2	25.0	24.6	24.5	24.5		26.0	26.0	
Automatic debt dynamics	-1.5	-0.5	-2.0			-0.4	-0.6	-0.9	-1.1	-1.2	-1.2		-1.3	-1.1	
Contribution from interest rate/growth differential	-0.4	-1.4	-0.6			-0.6	-0.7	-1.0	-1.2	-1.3	-1.4		-1.2	-1.0	
of which: contribution from average real interest rate	0.2	-0.6	0.0			0.2	0.4	0.3	0.2	0.1	0.0		0.0	0.0	
of which: contribution from real GDP growth	-0.6	-0.7	-0.6			-0.8	-1.1	-1.3	-1.4	-1.4	-1.4		-1.2	-1.0	
Contribution from real exchange rate depreciation	-1.1	0.8	-1.3			0.2	0.1	0.1	0.1	0.2	0.2		...	...	
Other identified debt-creating flows	-0.2	-0.2	-0.6			-0.6	-0.3	-0.3	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	-0.2	-0.6			-0.6	-0.3	-0.3	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	5.2	8.4	0.6			-1.6	-0.8	0.0	1.0	1.1	1.1		-0.3	-0.1	
Other Sustainability Indicators															
PV of public sector debt	3.7	7.8	21.9			21.1	20.4	19.6	19.3	19.0	18.8		16.4	13.7	
o/w foreign-currency denominated	0.0	0.0	10.8			12.2	12.9	13.6	14.2	14.7	15.2		12.6	9.2	
o/w external	...	...	10.8			12.2	12.9	13.6	14.2	14.7	15.2		12.6	9.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-0.2	1.4	3.8			2.8	3.0	2.2	1.3	1.0	0.9		1.9	1.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	15.6	36.7	101.6			84.6	86.1	81.4	79.1	77.8	77.0		65.7	54.9	
PV of public sector debt-to-revenue ratio (in percent)	17.8	40.0	119.3			102.4	99.6	93.7	90.6	89.0	88.0		74.0	61.8	
o/w external 3/	…	…	58.6			59.1	63.2	64.9	66.7	68.9	71.2		56.6	41.6	
Debt service-to-revenue and grants ratio (in percent) 4/	2.0	0.3	0.9			5.9	6.1	5.5	4.7	3.7	3.0		3.6	3.0	
Debt service-to-revenue ratio (in percent) 4/	2.3	0.3	1.1			7.0	7.1	6.3	5.4	4.3	3.5		4.1	3.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.6	-7.8	1.9			2.7	1.7	1.2	0.1	0.1	0.1		1.6	1.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.6	5.0	2.7	4.2	1.1	3.2	4.4	5.5	6.0	6.0	6.0	5.2	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	4.8	1.5	1.7	1.7	1.2	2.0	1.9	1.8	1.7	1.6	1.6	1.8	1.2	1.1	1.2
Average real interest rate on domestic debt (in percent)	-2.5	-1.4	1.1	0.8	2.4	2.2	4.8	4.8	4.1	3.2	2.7	3.6	3.9	3.0	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.5	8.0	-8.2	-5.7	11.5	1.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.6	7.2	2.0	3.2	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.2	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	37.5	36.1	34.0	33.4	33.6	33.4	34.6	32.7	32.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Public sector includes the central administration of Benin and does not include any political subdivisions such as local governments or any other public or government-owned entities. This DSA is conducted on a gross basis.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Benin: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	21	20	20	19	19	19	16	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	21	20	20	20	21	22	20	18
A2. Primary balance is unchanged from 2010	21	20	20	21	21	22	20	19
A3. Permanently lower GDP growth 1/	21	20	20	20	20	20	19	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	21	21	21	22	22	22	22	22
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	21	21	21	21	20	20	17	14
B3. Combination of B1-B2 using one half standard deviation shocks	21	21	21	21	21	21	20	20
B4. One-time 30 percent real depreciation in 2011	21	25	24	23	22	22	18	15
B5. 10 percent of GDP increase in other debt-creating flows in 2011	21	28	27	27	26	26	22	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	87	86	81	79	78	77	66	55
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	87	84	81	83	86	89	79	68
A2. Primary balance is unchanged from 2010	87	86	83	84	87	90	81	74
A3. Permanently lower GDP growth 1/	87	86	82	80	80	80	75	83
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	87	88	87	88	89	90	88	89
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	87	88	88	85	84	83	70	57
B3. Combination of B1-B2 using one half standard deviation shocks	87	87	86	85	85	86	81	79
B4. One-time 30 percent real depreciation in 2011	87	106	99	94	91	89	73	58
B5. 10 percent of GDP increase in other debt-creating flows in 2011	87	120	114	110	107	105	87	66
Debt Service-to-Revenue Ratio 2/								
Baseline	6	6	5	5	4	3	4	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	6	5	5	4	3	5	4
A2. Primary balance is unchanged from 2010	6	6	5	5	4	3	5	4
A3. Permanently lower GDP growth 1/	6	6	6	5	4	3	4	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	6	6	6	5	4	4	5	5
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	6	6	6	5	4	3	4	3
B3. Combination of B1-B2 using one half standard deviation shocks	6	6	6	5	4	3	4	5
B4. One-time 30 percent real depreciation in 2011	6	7	7	6	5	4	5	5
B5. 10 percent of GDP increase in other debt-creating flows in 2011	6	6	7	6	6	5	4	4

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

BENIN

Staff Report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement under the Extended Credit Facility

Informational Annex

Prepared by the African Department

May 27, 2010

Contents Page

I. Relations with the Fund

(As of April 30, 2010)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund holdings of currency	59.72	96.48
Reserve Position	2.19	3.53
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	59.17	100.00
Holdings	49.69	83.99

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	24.77	40.02

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Aug 05, 2005	Aug 04, 2009	24.77	24.77
ECF [1/]	Jul 17, 2000	Mar 31, 2004	27.00	27.00
ECF [1/]	Aug 28, 1996	Jul 16, 2000	27.18	16.31

VI. Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal		0.18	0.44	0.62	3.93
Charges/Interest	0.02	0.03	0.09	0.09	0.08
Total	0.02	0.20	0.53	0.70	4.01

[1/] Formerly PRGF.
[2/] When a member has overdue financial obligations outstanding for more than three months; the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Jul 2000
Assistance committed by all creditors (US$ Million) [1/]	265.00
Of which: IMF assistance (US$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	Mar 2003
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	18.40
Interim assistance	11.04
Completion point balance	7.36
Additional disbursement of interest income [2/]	1.66
Total disbursements	20.06

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	36.06
Financed by: MDRI Trust	34.11
Remaining HIPC resources	1.95

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	36.06	36.06

[1/]The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The upcoming implementation (2010) of the Institutional Reform of the WAEMU and the BCEAO should help correct that situation. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

X. Exchange Arrangement:

Benin is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. On April 28, 2006, the rate of the CFA franc in terms of SDR was CFAF 769.68 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. The exchange system common to all member countries of the WAEMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XI. Article IV Consultations:

The last Article IV consultation discussions were held in Cotonou during March 3–17, 2008. The staff report (Country Report No. 08/230; 5/30/08) and selected issues paper were discussed by the Executive Board, and the 2008 Article IV consultation concluded, on June 16, 2008.

XII. 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 taken quickly 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 (Country Report No. 02/217).

XIII. Technical Assistance for the last five years:

A. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
LEG	Technical assistance	April 24–26, 2006	Providing in-depth training on the AML/CFT framework
FAD	Technical assistance	October 10–23, 2006	Review of status of implementation of reforms to modernize the tax and customs administrations
FAD	Technical assistance	October 30–November 13, 2006	PFM diagnostic and preparation of a reform action plan
FAD	Technical assistance	June 16–30, 2008	Diagnostic of the Tax System and preparation of a tax policy reform.
FAD	Technical assistance	June 15-26, 2009	Assess progress in modernizing the tax and customs administration; identify reform priorities

B. AFRITAC West

FAD	Technical assistance	2006, 2007	Customs Administration
FAD	Technical	2006, 2007	Public Expenditure Management

Department	Type of Assistance	Time of Delivery	Purpose
	assistance		
FAD	Technical assistance	2006, 2007, 2008	Tax Administration
FAD	Technical Assistance	2009	Public Expenditure Management
FAD	Technical Assistance	2010	Tax administration
FAD	Technical Assistance	2010	Customs Administration
MCM	Technical assistance	2006, 2007	Bank Supervision and Regulation
MCM	Technical assistance	2007, 2008	Public Debt and Debt Sustainability
STA	Technical assistance	2006	Government Finance Statistics
STA	Technical assistance	2007, 2008	Multisector Statistics
STA	Technical assistance	2006, 2009	National Accounts Statistics
STA	Technical assistance	2006, 2008	Real Sector Statistics
STA	Technical Assistance	2009	National Accounts Statistics
STA	Technical assistance	2010	Government Finance Statistics

XIV. Resident Representative:

Mr. Yao has been the Resident Representative from September 26, 2005 until December 24, 2009.

II. Joint World Bank-IMF Work Program, 2009–10

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	1. Public Expenditure Review	March 2010	July 2010
	2. PRSC-6		April 2010
	3. GEF Energy Efficiency	June 2009	April 2010
IMF work program in next 12 months	1. Sixth PRGF review	March/April 2009	June 2009
	2. Discussion on a new ECF arrangement	March 2010	June 2010
B. Requests for work program inputs			
Fund request to Bank	Public Expenditure Review		December 2010
Bank request to Fund	Review of the tax regime and conditions for a business friendly tax system		October 2009
C. Agreement on joint products and missions			
Joint products in next 12 months	DSA		June 2010
	FSAP		December 2010

III. Statistical Issues

A. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist in the areas of national accounts, public finance, monetary statistics, and balance of payments.

Real sector statistics: Inadequate resources and weaknesses in data documentation and methodology hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participates in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the *1993 SNA*. Progress has been slow and the accounts for a few years still need to be converted. The West AFRITAC missions in 2008 and 2009 sought to accelerate the process and a forthcoming mission in 2010 will support the compilation of the revised 2007 accounts. A statistical register and an industrial production index are being developed, but the implementation has been slower than expected. Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index is in the process of being updated and the index is being rebased to 2008.

Government finance statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities report budgetary central government's "statement of sources and uses of cash" for publication in the *Government Finance Statistics Yearbook*, one year after the reference year. The October 2008 and July 2009 STA-GFS missions found that the authorities had yet to compile general government GFS to broaden coverage of nonmarket activities controlled by the government, disseminate the GFS within one quarter after the reference quarter, and present the other major GFS reports to facilitate linkages to other macroeconomic datasets e.g. the balance sheet.

Monetary and financial statistics: Monetary and financial statistics, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate and their institutional coverage is comprehensive. Accuracy is somewhat hampered by the use of 1990 sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country.

Balance of payments: External statistics are still affected by shortcomings that prevent an

accurate and timely assessment of current account transactions and capital and financial flows. Recent improvements in applying the guidelines of the *Balance of Payments Manual, Fifth Edition* have not solved the problem. In November 2004, a STA technical assistance mission noted that the human resources devoted to balance of payments statistics by the national agency of the BCEAO were inadequate, and highlighted a series of methodological problems including the use of untested hypotheses and reference bases, the limited coverage of direct investment, and shortcomings in the compilation of net external assets and international investment position. Balance of payments statistics are also disseminated with a lag of almost one year and the international investment position data with a lag of 18-month. Some progress has been achieved in the reconciliation of regional trade data with those of regional partners, and the compilation of trade statistics has been enhanced by the installation of the ASYCUDA customs computer system in all main border customs houses and of ASYCUDA ++ in the port, airport, and some regional offices. Further improvements will require the interconnection between the computer systems of the main customs departments and their integration with the other revenue agencies. Progress is also needed in improving contacts with reporting bodies, enhancing human and technical resources. Financial account data can be improved by extending the coverage of foreign assets of the private non banking sector, expanding the surveys of residents' foreign assets, and using other data source such as BIS statistics. The BCEAO has updated the compilation of commercial bank data on payments involving nonresidents; however these data are not used to produce annual balance of payments statistics. External debt data are broadly adequate for surveillance, but are comprehensive only for public and publicly guaranteed debt. Data are collected by the *Caisse Autonome d'Amortissements* (CAA), which is responsible for signing international loan agreements and servicing the government's external debt obligations. The CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis, but regular statements are not received from creditors.

B. Data Standards and Quality	
Benin commenced its participation in the General Data Dissemination System (GDDS) in 2001; but has since then not updated much of its metadata.	An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001.

C. Reporting to STA
Standardized Report Forms (in line with the *Monetary and Financial Statistical Manual)* are still not regularly used to report monetary data to the IMF.

Benin: Table of Common Indicators Required for Surveillance

(As of April 28, 2010)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	1/10	4/10	M	M	M
Reserve/Base Money	1/10	4/10	M	M	M
Broad Money	1/10	4/10	M	M	M
Central Bank Balance Sheet	1/10	4/10	M	M	M
Consolidated Balance Sheet of the Banking System	1/10	4/10	M	M	M
Interest Rates[2]	2/10	3/09	M	M	M
Consumer Price Index	3/10	4/10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/09	2/10	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2009	3/10	A	A	NA
External Current Account Balance	2009	3/10	A	A	A
Exports and Imports of Goods and Services	2009	3/10	A	Q	A
GDP/GNP	2009	3/10	A	A	A
Gross External Debt	2009	3/10	A	I	A
International Investment Position[6]	2007	3/09	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign domestic bank and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability position vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
June 10, 2010

This statement provides information that has become available since the staff report was issued to the Executive Board on May 28, 2010. The new information does not alter the thrust of the staff appraisal.

1. Preliminary data through April 2010 indicate that consumer price inflation rose to 3.0 percent year-on-year, reflecting the government decision to increase electricity tariffs by 10 percent on April 1 and higher food and transport costs. On the fiscal front, revenue collections were CFAF 36.9 billion (1.1 percent of GDP) lower than projected under the program on account of weaker tax and non-tax revenue. Nevertheless, government expenditure was in line with program projections, with lower domestic capital spending offsetting somewhat higher transfers. In particular, the wage bill was in line with the program.

2. The authorities indicated to staff this week that they have taken measures to increase revenue collections and regulate spending in order to achieve the end-June targets under the program. In particular, the management of the customs department has been recently replaced. The authorities have also made the use of the single Tax Identification Number mandatory for customs declarations, and have intensified customs controls at the borders. New internal controls at the income tax department have also been introduced. Finally, they expect to receive CFAF 52 billion (1.7 percent of GDP) in nontax revenue in July 2010 from the sale of three third-generation GSM licenses.

3. The authorities have revised their external financing projections upwards for 2010 to take account of the recent sharp depreciation of the CFA franc against the US dollar and the SDR. Based on the latest market exchange rates, the revised financing gap is now estimated at CFAF 19.5 billion, compared with CFAF 24.3 billion in the staff report. They expect to cover the revised financing gap with the two disbursements under the proposed ECF arrangement (CFAF 16.9 billion) and additional bilateral support (CFAF 2.6 billion) that they expect to be committed after the regular annual donors' review in June 2010. In any event, the authorities reconfirmed this week their commitment in the memorandum on economic and financial policies (paragraph 34) to cut the equivalent amount of any residual financing gap in nonpriority expenditures.

4. The authorities signed a restructuring agreement on June 3, 2010 with the Belgian Export Agency for a €10.8 million loan contracted by Benin Telecom in 2003 which had become overdue.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/78
FOR IMMEDIATE RELEASE
June 21, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Benin

On June 14, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Benin.[1]

Background

Following a period of strengthening growth in Benin, the global economic crisis halved real gross domestic product (GDP) growth in Benin in 2009. Weaker demand for exports, a decline in cotton prices and lower inflows of foreign direct investments reduced real GDP growth to 2.7 percent in 2009, compared with 5 percent in 2008. The deceleration was aggravated by the decline in cotton production and floods in the south, while non-cotton agriculture production and transportation continued to grow, as domestic demand was supported by the fiscal stimulus. Inflation declined to an average 2.2 percent in 2009, from 8.0 percent in 2008, reflecting a good harvest and the decline in international food and fuel prices. A sharp decline in transit trade and weaker cotton exports widened the current account deficit excluding grants to 10.8 percent of GDP in 2009. These developments accompanied by a decline in foreign direct investments turned the overall balance of payments into a deficit of 1.6 percent in 2009, from a surplus of 1.6 percent the previous year. The real effective exchange rate in December 2009.appreciated by 1.1 percent year–on–year.

Supported by higher liquidity, broad money expanded at a slightly higher rate than nominal GDP. Following the reduction in reserve requirements from 15 to 9 percent in June 2009, banks increased credit to the private sector by 11 percent at end-2009 despite an increase in government borrowing. At the same time, commercial banks' asset quality improved, the ratio of

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

nonperforming loans declining from 6.5 percent in 2008 to 5.7 percent in 2009. Four banks, however, continue to have negative capital and further corrective actions are needed to ensure that all banks comply with prudential regulations.

Against the backdrop of lower customs collections, the authorities sought to provide a strong fiscal stimulus in the first half of 2009, but were forced to tighten policies thereafter due to financing constraints. Revenue collections declined by 1 percent of GDP in 2009, as a consequence of the deceleration of import growth and the increase in exemptions that led to a 7 percent decline in customs receipts. During the first half of the year, expenditures increased strongly as a result of large awards of bonuses to civil servants and a surge in investment spending. Despite efforts to redress the situation during the second half of the year, the overall fiscal deficit (excluding grants) more than doubled from 3.5 percent of GDP in 2008 to 7.3 percent of GDP in 2009. The deficit was financed through additional external donor support, domestic borrowing, and a carryover of expenditure commitments to 2010.

The implementation of structural reforms is moving forward, albeit with some delays. The authorities have recently privatized key public enterprises, including awarding the concession of the container terminal of the Port of Cotonou to a private operator. The sale of a majority stake in Benin Telecom has been launched and is expected to be completed in the third quarter of 2010. The electricity company is being restructured ahead of its privatization scheduled for end-2011. Tax and customs administration and public finance management are being strengthened.

Benin's short-term prospects remain relatively weak. Real GDP growth is expected to grow by 3.2 percent in 2010, based on a moderate fiscal stimulus to support economic activity. Inflation should remain below 3 percent—the convergence criterion set by the West African Economic and Monetary Union. The authorities are committed to pursuing a more prudent fiscal policy in 2010, which will bring about a moderate adjustment in the overall fiscal deficit to 5.9 percent of GDP. The public wage bill will need to be limited in order to leave adequate fiscal space for priority social and investment spending. This will be facilitated by the structural reform agenda, including further measures to strengthen revenue collection and public financial management. Efforts to further improve external competitiveness and the business climate are continuing, including improving infrastructure, strengthening customs administration, and modernizing the public administration; and second generation reforms aimed at improving land registration, property rights and the financial and judiciary systems.

Executive Board Assessment

Executive Directors noted that Benin's economy has been hit by the global crisis, leading to sharply lower growth and a large overall fiscal deficit in 2009. Directors also pointed to the adverse impact on Benin's economic performance of the large expansion in the public wage bill and uneven progress on structural reforms. Looking ahead, the key challenges are to contain the impact of the crisis in the short run, while reducing fiscal and external imbalances and boosting sustainable growth and poverty reduction over the medium term. Directors encouraged the authorities to build the necessary support among key stakeholders to ensure successful implementation of their reform program, particularly in the critical fiscal and structural areas.

Directors noted that growth is likely to remain weak in 2010. While there may be some scope for fiscal policy to support the incipient recovery, they stressed that a prudent implementation of the 2010 budget in line with the Extended Credit Facility-supported program will be essential. Over the medium term, considerable adjustment is needed to preserve fiscal and debt sustainability. In particular, the growth of the wage bill needs to be contained, with a view to safeguarding fiscal space for priority spending, reducing distortions in the labor market, and improving external competitiveness. Directors encouraged the authorities to resist spending pressures in the run up to the 2011 elections. They underscored that undertaking the long-delayed comprehensive reform of the civil service is critical to increased efficiency in public service delivery and keeping expenditures in line with fiscal sustainability.

Directors were encouraged by the authorities' commitment to improve tax and customs administration and broaden the tax base. They noted the delays in public financial management reforms, and called on the authorities to step up their reform efforts to improve expenditure administration, including the implementation of the new public procurement code.

Directors underscored the need to reach higher sustainable growth by implementing the authorities' structural reform agenda, which will help make progress toward the Millennium Development Goals. Ambitious reforms will also reduce Benin's vulnerability to external shocks, improve the business environment, and reverse the recent erosion of Benin's external competitiveness.

Directors welcomed the progress made in privatizing the cotton and public utility sectors. They encouraged the authorities to proceed with the planned privatization of Benin Telecom and with the implementation of a regulatory framework for the electricity sector. Directors commended the authorities' intention to save the privatization proceeds and use them, after consultation with Fund staff, to finance projects with a high social rate of return. Second generation reforms to improve land registration, property rights, and the financial and judiciary systems will also be essential to improve the business environment.

Directors encouraged the authorities to continue to enhance banking supervision and improve compliance with prudential ratios, while strengthening the application of the regulatory framework of the microfinance sector. They looked forward to the upcoming Financial Sector Assessment Program review, which should help the authorities further strengthen their supervisory framework.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Benin: Selected Economic Indicators

	2007	2008	2009	2010
	(Annual changes in percent)			
Income and prices				
Real GDP	4.6	5.0	2.7	3.2
Consumer prices (average)	1.3	8.0	2.2	2.5
Real effective exchange rate (minus=depreciation)	0.8	5.0	1.1	…
	(Change in percent of beginning-of-period broad money)			
Money and credit				
Net foreign assets	18.6	3.3	-0.9	2.3
Broad money	17.7	28.8	6.2	5.4
Credit to the nongovernment sector	13.0	13.0	5.70	3.6
Net credit to central government	-14.4	11.4	6.6	-0.4
	(In percent of GDP)			
Investment and saving				
Gross domestic investment	21.4	20.8	24.8	25.1
Gross national savings	11.3	12.8	16.3	17.2
External sector				
Current account balance (excl. grants)	-10.8	-9.0	-10.8	-9.7
Overall balance of payments	3.2	1.6	-1.6	-0.1
Central government balance				
Central government revenue	20.6	19.4	18.4	20.6
Total expenditure and net lending	23.4	22.9	25.7	26.5
Primary fiscal balance	-1.2	-3.1	-6.8	-5.1
Overall fiscal balance 1/	-2.8	-3.5	-7.3	-5.9

Sources: Beninese authorities; and IMF staff calculation and estimates

1/ Payment order basis

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/243
FOR IMMEDIATE RELEASE
June 14, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$109 Million ECF for Benin

The Executive Board of the International Monetary Fund (IMF) today approved a new three-year arrangement under the Extended Credit Facility (ECF) for a total amount equivalent to SDR 74.28 million (about US$109 million). The approval will enable the first disbursement of an amount equivalent to SDR 10.62 million (about US$15.6 million).

The new arrangement is designed to support the authorities' program to increase economic growth by boosting investment in infrastructure and implementing structural reforms aimed at increasing Benin's economic competitiveness. The program will help create fiscal space for accelerated capital and social spending by broadening the tax base, containing non-priority spending, and raising public sector efficiency.

At the conclusion of the Executive Board discussion on Benin, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The global economic crisis continues to have a negative impact on Benin's economic performance, reducing growth by nearly half in 2009. The authorities' fiscal stimulus could not be sustained, given the lack of financing, and the overall fiscal deficit more than doubled compared with 2008.

"Growth is likely to remain weak in 2010. But the medium-term outlook is more favorable, provided the authorities implement prudent macroeconomic policies and their structural reform agenda. Continued support from the international community will also be essential for Benin to make further progress toward the Millennium Development Goals.

"The authorities' main macroeconomic challenge is to mitigate the impact of the crisis in the short term, while reaching higher sustainable growth over the medium term. While there is some scope for fiscal policy to support the economic recovery in 2010, a considerable fiscal adjustment will be needed over the medium term to maintain fiscal sustainability. In particular, the growth of the wage bill will need to be contained, with a view to safeguarding fiscal space for priority spending, reducing distortions in the labor market, and improving competitiveness.

"The authorities' economic program responds to the challenges appropriately. Fiscal policy aims at maintaining fiscal and debt sustainability. The structural reform agenda will strengthen revenue collections and public financial management, support the authorities' divestiture of state enterprises, and improving the business climate. The new ECF arrangement will provide essential financial support to cover the temporary imbalances associated with the implementation of the authorities' economic program by catalyzing additional concessional assistance from donors," Mr. Portugal added.

Annex

Recent Economic Developments

The global economic crisis reduced growth in Benin by half in 2009, more than in the other countries of the West African Economic and Monetary Union (WAEMU). Lower cotton prices, weaker demand for exports—notably from Nigeria—and lower inflows of foreign direct investment reduced real GDP growth from 5 percent in 2008 to 2.7 percent in 2009. The decline in international food and fuel prices contributed to easing inflationary pressures. Average CPI inflation declined from 8 percent in 2008 to 2.2 percent in 2009, reflecting lower food, transportation, and gasoline prices.

A sharp decline in transit trade and weaker cotton exports widened the current account deficit. The terms of trade were unchanged, because decline in international food and energy prices offset the fall in international cotton prices. These developments, accompanied by a decline in foreign direct investment and other flows turned the overall balance of payments into a deficit of 1.6 percent of GDP in 2009.

The authorities responded to the crisis by enforcing a strong fiscal stimulus in the first half of 2009, which needed to be reversed in the second half owing to the lack of financing. Fiscal policy was looser in 2009 compared to 2008. The overall fiscal deficit more than doubled to 7.3 percent in 2009. About two-thirds of the deficit was financed from external grants and concessional loans, including the counterpart of the SDR allocation.

Program Summary

Under the new ECF-supported program, the government aims to maintain macroeconomic stability and accelerate structural reforms to contain the negative impact of the global economic crisis on

Benin in the short run and increase sustainable growth over the medium term. The macroeconomic objectives of the government program are to:

• Raise annual real GDP growth to 6 percent by 2013 from 3.2 percent in 2010;

• Maintain inflation below the WAEMU convergence criterion of 3 percent;

• Reduce the external current account deficit (excluding grants) to 7.6 percent of GDP by 2013 from 10.8 percent in 2009;

• Increase the basic primary balance to a surplus of 1.5 percent of GDP by 2013, compared with a deficit of 3.8 percent of GDP in 2009.

The macroeconomic program will be complemented by structural reforms. In this context, the program will:

• Enhance the effectiveness of expenditure that induces growth by improving the selection and monitoring of projects, and strengthening transparency and accountability in public procurement contracts;

• Implement structural reforms to strengthen external competitiveness and improve the business climate. These reforms will improve revenue administration, the quality and delivery of public services, and enhance transparency and accountability in public financial management;

• Introduce "second generation" reforms to improve land registration and property rights and the financial and judiciary systems; strengthen microfinance supervision, and devote more resources to youth entrepreneurship.

Benin: Selected Economic Indicators

	2007	2008	2009	2010
	(Annual changes in percent)			
Income and prices				
Real GDP	4.6	5.0	2.7	3.2
Consumer prices (average)	1.3	8.0	2.2	2.5
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Gross national savings	11.3	12.8	16.3	17.2
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Current account balance (excl. grants)	-10.8	-9.0	-10.8	-9.7
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Primary fiscal balance	-1.2	-3.1	-6.8	-5.1
Overall fiscal balance 1/	-2.8	-3.5	-7.3	-5.9

Sources: Beninese authorities; and IMF staff calculation and estimates

1/ Payment order basis

Statement by Laurean Rutayisire, Executive Director for Benin
June 14, 2010

On behalf of my Beninese authorities, I would like to express my appreciation to Management and staff for the constructive discussions with my authorities, including the President, over the past six months, both in Cotonou and Washington. These discussions contributed to refining my authorities' medium-term economic and financial program in support of which a new arrangement is requested. The report before us today makes a good account of the contents of these exchanges and the elements of the program. I also wish to express my authorities' appreciation of the presentations made during staff visit in Cotonou in March 2010, as they enabled useful exchanges on many issues of interest for the program. My authorities are particularly very appreciative of the additional assistance received last year from development and technical partners.

For a long period, Benin performed very well in terms of policy implementation, notably in the context of Fund-supported programs, including under the last arrangement that expired in June 2009. However, over the past few years, Benin has experienced a series of shocks, including the food and fuel crisis and the global economic and financial crisis, which has seriously complicated the implementation of their poverty reduction and growth program. Last year, as my authorities strived to mitigate the impact of those shocks on the population through supportive policies, the emergence of macroeconomic imbalances forced them to review their economic program, in order to preserve long-term macroeconomic stability.

Going forward, my authorities are still facing the challenges of mitigating the impact of the crisis, while laying the foundation for a strong, balanced growth to meet the MDGs. They count on continued external assistance to support their program aimed at addressing these challenges. In particular, they believe that a Fund's involvement in Benin through an arrangement will be helpful in anchoring reforms and provide a framework for external assistance. Accordingly, my authorities are requesting an Extended Credit Facility arrangement for SDR 74.28 million (120 percent of the quota) for the period covering 2010-2013.

I - Recent Developments

The global economic and financial crisis, together with the floods in the south of the country in July 2009, affected economic activity in Benin last year. As a result, real GDP growth declined from 5 percent in 2008 to 2.7 percent in 2009. Lower external demand for cotton and transit trade due to economic slowdown in neighboring countries led to a widening of the current account. Subsequently, as capital flows also declined, the overall balance of payments ran into deficit for the first time in years.

Policy response to the crisis took the form of a strong fiscal stimulus in the first half of 2009, consisting of wage increases, and higher capital and social spending amid a sluggish economic environment affecting downward revenue performance. In light of the weak prospects for revenue and external funding at the time, my authorities decided to reverse its **fiscal stance** in the second half of 2009 through a reduction in nonessential expenditures, and a freezing of some expenditure commitments, including new bonuses to civil servants, and of capital spending. Those measures enabled the authorities to limit the widening of fiscal deficit to 7.3 percent of GDP in 2009, financed mainly from external grants, concessional loans, bond issuances in the regional market and the use of SDR allocation.

As already discussed at the meeting on the common policies in the West African Economic and Monetary Union a few months ago, the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), the regional central bank, responded to the crisis by conducting an accommodative **monetary policy** through liquidity injection, a cut in the intervention rate by 50 bps to 4.25 percent and a reduction in the reserve requirement ratio for Benin from 16 percent to 9 percent. Credit to the economy in Benin increased by 11 percent on account of higher domestic demand in the second half of 2009.

In the **financial sector**, banks' asset quality improved as the rate of nonperforming loans declined and capital adequacy ratio remains above the prudential norm. Nevertheless, a few banks are under strict surveillance and one is under provisional administration for not complying with some prudential norms.

Despite the difficult economic environment, my authorities made significant progress in the implementation of **structural reforms** initiated during the previous arrangement, which aim at improving the competitiveness of the national economy and establishing the conditions for strong economic growth. In particular, aware of the country's steady loss of competitiveness, as reported in various reports including the World Bank Doing Business report, the government established in early 2009 a steering committee tasked with promoting improvements in the regulatory framework with a view to simplifying the procedures for business creation, tax- and customs-related operations and commercial dispute resolution.

The reform of **public enterprises** is proceeding well, which has enabled a greater participation of the private sector in several sectors including agriculture, cement, forestry and hotel. In the energy sector, the debt of the electricity company (SBEE) was restructured in March 2010 thanks to the government and all electricity rates were increased by 10 CFAF per kWh on average in April 2010 to improve its financial situation and reduce its burden on public finances. The privatization program will reach another milestone with the sale of a majority stake in the capital of Benin Telecom before the end of this year.

Also noteworthy is the steady progress made in the implementation of the MCA-supported reform program aimed at improving physical and institutional infrastructure in Benin. An important element of that program is the improvement of the **Port of Cotonou**, with the ongoing construction of a new container terminal consisting of two accommodation berths and the attribution of the terminal management to an international company. A call for bids for the establishment of a one-stop window for port operations at the Port de Cotonou was launched in May 2010.

II - Policies for 2010 and the medium-term

My authorities are committed to pursuing implementation of their economic program with the objective to support economic recovery in the short term, and place the country on the road to a sustained growth in the medium term. These objectives of the financial program are consistent with the new poverty reduction strategy being prepared for 2010-14, which will be a framework for technical and financial support from Benin's development partners. The macroeconomic objectives of the program is to increase growth rate from a projected 3.2 percent in 2009 to 6 percent in 2013, contain inflation below the WAEMU convergence criterion of 3 percent, and reduce the external current account deficit to 7 percent of GDP by 2013. My authorities will adopt any other measures needed to achieve the objectives of the program.

Fiscal consolidation initiated in the second half of 2009 is the cornerstone of the program. It will be pursued over the period of the arrangement, with the objective to preserving fiscal and debt sustainability, while creating fiscal space for needed to strengthen the social safety nets and support other priority social spending. This will be achieved through greater revenue mobilization and reduction in recurrent expenditures. The fiscal deficit is expected to decline from 7.3 percent in 2009 to 5.9 percent of GDP in 2010, as revenue is projected to rebound following improvements in tax and customs administration. This deficit is expected to decline further to 3.3 percent of GDP in 2013. It will be financed primarily with external concessional budget support from both multilateral and bilateral donors. My authorities will continue their prudent borrowing strategy of securing grants or highly concessional loans to finance the deficit.

Strengthening the **public financial management** will remain a priority in the fiscal program. In particular, my authorities will pursue the reform and modernization of the tax and customs administrations, with the expectation that this will translate in greater revenue performance. Important steps in the near term in that area will be the submission to the National Assembly in October 2010 of a legislation introducing the personal income tax, and the computerization of all customs offices by end-2010. In addition, the implementing decrees of Public Procurement Code will be adopted by end-September 2010. My authorities will also improve budget preparation and execution procedures, in order to better monitor expenditures and reduce recourse to exceptional payment procedures.

My authorities are cognizant of the need to undertake reforms of the **wage policy and pension fund** in the civil service, in order to make them more sustainable and ensure long-term fiscal and debt sustainability. Regarding the compensation system, the government has commissioned a study of the civil service remuneration system and has decided not to grant new bonuses, allowances, or other benefits to civil servants until that study is completed. The recommendations will form the basis for developing a civil service reform strategy to be adopted by June 2011. In addition, recognizing that achieving separate salary agreements with various segments of the civil service is inefficient, the government established a committee of representatives of the government, labor unions, and social partners to act as a single negotiating framework for achieving multiyear salary agreements that take into account government's financial capacity and its economic and social policy priorities. In the same vein, the government intends to make further progress in its reform of the civil service pension fund, in order to make it more viable. In this regard, they are preparing a draft law to implement a new strategy based on the recommendations of an actuarial audit concluded in September 2009. This draft law will be discussed between all parties concerned before it is submitted to the Parliament by end-2011.

The regional central bank will continue to monitor closely inflationary trends and conduct a **monetary policy** consistent with the objective of price stability. Likewise, the WAMU Banking Commission will continue to monitor the financial system. My authorities have asked for a FSAP mission in 2010 and are committed to implement any resulting recommendations. In the meantime, they will continue to enhance banking supervision to improve compliance with the prudential ratios and strengthen the application of the regulatory framework of the microfinance sector.

My authorities are determined to advance the implementation of its **reform agenda** during the program period, as evidenced by the recent actions (electricity tariff increases and call for bid for a one-stop window in for port operations) taken prior to this meeting. As indicated in the MEFP and partially mentioned above, benchmarks for progress during the program include critical actions in the reforms of the fiscal, agriculture, energy, telecommunications and transportation sectors. Further progress is also expected in the implementation of the second-generation reforms (justice, land tenure, and financial services) with the support of the MCC.

Conclusion

My authorities are requesting a new three-year ECF arrangement in support of their economic and financial program aimed at mitigating the effects of the global and financial crisis in the near term, while ensuring sustained growth over the medium-term and making further strides in reducing poverty. They have demonstrated a strong ownership of their program with a steady implementation of structural reforms after the expiration of the last arrangement, despite difficult domestic environment. In light of the strength of the program and the prior actions taken, I will appreciate Board's support for my Beninese authorities' request.