November 2001
IMF Country Report No. 01/208

Benin: Second Review of the First-Year Program and the Second-Year Program Under the Poverty Reduction and Growth Facility—Staff Report; and News Brief on the Executive Board Discussion

In the context of the Second Review of the First-Year Program and the Second-Year Program Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Second Review of the First-Year Program and the Second-Year Program Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on August 23, 2001, 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 October 18, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a News Brief summarizing the **views of the Executive Board as discussed during its November 5 discussion of the staff report that completed the review.**

The documents listed below have been or will be separately released.

Memorandum of Economic and Financial Policies*
Technical Memorandum of Understanding*
Poverty Reduction Strategy Paper Preparation Status Report
Joint Staff Assessment of the Poverty Reduction Strategy Paper Preparation Status Report

*Is also included in Staff Report.

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BENIN

Staff Report for the Second Review and the Second-Year Program Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Fiscal, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by A. Basu and Masood Ahmed

October 18, 2001

Contents Page

Boxes

Figures

Tables

Appendices

EXECUTIVE SUMMARY

A. Performance Under the Program for 2000/01

Benin's economic and financial performance under the first-year program supported by the Poverty Reduction and Growth Facility (PRGF) was broadly satisfactory. However, structural reform implementation was uneven, especially in the run up to the presidential election when there was no progress on the divestiture program and the reform of the compensation system for the civil service. All quantitative performance criteria for March 2001 were met, and the structural benchmark on the merging of the civil service database was met in September 2001, instead of March 2001.

B. Elements of the Program for 2001-02

Real GDP is anticipated to grow by 5.8 percent in 2001 and 6 percent in 2002, or 0.8 percent and 0.4 percent higher than the initial objectives for the two years, respectively. Inflation is targeted to decline to less than 3 percent in both years, whereas the external account deficit would be slightly wider than anticipated in 2002. **The fiscal targets are likely to be met in 2001,** reflecting a strong government revenue performance and a compression of expenditure in the first half of the year owing to problems encountered with a new expenditure management system.[1] **In 2002, the fiscal deficit should rise slightly, on account of an increase in public investment.**

Key structural reforms to be implemented in the rest of 2001 and in 2002 include the privatization of the public enterprises in the cotton and telecommunications sectors, the private sector's participation in the management of the enterprise distributing water and electricity and managing the Port of Cotonou, the implementation of a new compensation system for the civil service, and a decentralization policy.

Selected Economic and Financial Indicators, 1999-2004

	1999	2000		2001		2002		2003	2004
		Prog.	Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.
				(Annual percentage change)					
Real GDP	4.7	5.3	5.8	5.0	5.8	5.6	6.0	6.6	7.0
Consumer price index (average)	0.3	3.9	4.2	3.0	3.0	2.5	2.5	2.0	2.0
Broad money	35.0	10.3	21.3	9.3	10.5	...	9.5	...	...
				In percent of GDP)					
Primary budget balance 1/	-0.7	-2.6	-2.6	-3.5	-3.2	-3.1	-3.3	-2.9	-3.0
Overall fiscal balance, excluding grants	-1.6	-3.5	-3.5	-4.4	-4.1	-3.9	-4.2	-3.7	-3.7
Overall fiscal balance, including grants	1.9	-0.1	-1.8	-0.8	-0.6	-0.7	-1.6	-1.3	-1.3
External current account balance	-7.6	-7.3	-8.0	-6.9	-6.6	-6.5	-7.0	-7.2	-6.7

1/ Overall balance, excluding interest payments.

[1] Some of the expenditure shortfall is likely to be offset by an acceleration of spending in the second half of the year.

C. Issues Raised in the Staff Appraisal

- **The staff considers that the economic and financial performance during the program period (April 1, 2000-March 31, 2001) was satisfactory**. However, implementation of structural reforms was uneven, especially during the months leading up to the presidential elections held in March 2001.

- **The fiscal stance remains appropriate in 2001 and in the preliminary budget for 2002**. Nevertheless, the government needs to improve the level and the quality of government expenditure and ensure that the 2002 budget is strongly oriented toward growth and poverty reduction. In that context, it is essential to resolve problems encountered early this year in the expenditure management system and pursue the reforms undertaken with the support of the international community aimed at strengthening budget preparation and execution, and measuring outcomes against a clear set of indicators.

- **The resumption of structural reform implementation is essential** for the authorities to improve resource allocation and meet their objective of accelerating growth to 7 percent over the medium term. In particular, the opening of all productive sectors to domestic and foreign private investment is necessary to broaden and strengthen the economic base. The staff also encouraged the authorities to conduct a poverty and social impact assessment of policies in order to take measures to protect the poor. At the same time, implementation of a performance-based compensation system for the civil service and decentralization of the decision-making process would improve the efficiency of the public administration, especially in the delivery of social services to the population.

- **The staff welcomed the implementation of the regional banking commission's key recommendations.** To strengthen the banking sector further, the authorities need to ensure that all banks observe prudential ratios, in particular, those related to minimum capital requirements.

- **The staff noted the progress recently made in the preparation of the full PRSP with the broad participation of the civil society.**

I. Introduction

1. The discussions on the second review of the first-year program and the second-year program under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou during July 19-August 2, 2001, and in Washington during August 20-23, 2001.[2] [3] The second review has been delayed by three months at the request of the authorities who, after the presidential election in March 2001 and the formation of a new government in May 2001, wanted time to review outstanding economic issues and prepare their medium-term economic program.

2. The Executive Board concluded the first review under the PRGF arrangement and the 2000 Article IV consultation on January 8, 2001. At that time, Executive Directors noted the satisfactory macroeconomic performance. Looking ahead, they encouraged the government to develop a broad consensus on key policies, avoid slippages in implementing structural reforms, allocate a larger share of government expenditures to social sectors, and maintain a stable macroeconomic environment. They pointed to the need for a prudent wage policy. Directors also urged the authorities to prepare a comprehensive and coherent poverty-reduction strategy with the participation of civil society.

3. **Fund and World Bank staffs have continued to cooperate closely on Benin.** A World Bank team was in Cotonou at the same time as the Fund mission to jointly discuss the preparation of the poverty-reduction strategy paper (PRSP). Building on missions in April and June 2001, World Bank staff also followed up on implementation of the public expenditure reform adjustment credit (PERAC) approved by the World Bank's Executive Board in March 2001 and took stock of progress achieved in preparing a medium-term expenditure framework

---

[2] The Beninese representatives included Mr. Amoussou, Minister of State in charge of Government Coordination and Planning; Mr. Bio-Tchané, Minister of Finance and Economy; Mr. Daouda, National Director of the Central Bank of West African States (BCEAO); and other senior government officials. The mission also met President Kérékou. The mission team consisted of Mr. Briançon (head), Mr. Randriamaholy (Resident Representative), Mr. Nsengiyumva (AFR), Mr. Ossié (AFR), Mr. Schulte (SEC), Mr. Debrun (Institute, EP), Ms. Gicquel (Research Assistant, PDR), and Mrs. Hotobah-During (Administrative Assistant, AFR). Mr. Barro-Chambrier and Mr. Touré, Executive Directors for the Fund and the World Bank, respectively, participated in some of the discussions. Mr. Nyambal from the Fund Executive Office and Mr. Douamba from the World Bank Executive Office, as well as Mrs. Leroy and Mr. Dramé from the World Bank, participated in the discussions.

[3] The three-year PRGF arrangement, in an amount equivalent to SDR 27 million (43.6 percent of quota), and the first disbursement thereunder, in an amount equivalent to SDR 6.8 million (11 percent of quota), were approved by the Executive Board on July 17, 2000. The first review was completed on January 5, 2001. Also, at the time of the approval of the PRGF arrangement, the Executive Board agreed that Benin had reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Interim assistance granted by the Fund amounts to the equivalent of SDR 3.7 million in 2000 and SDR 3.68 million in 2001.

(MTEF). Benin's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.

4. **President Kérékou was reelected in March 2001, and a new coalition government was formed in May 2001.** The first local elections, which were to be held in 2000, were again postponed, probably until 2002. The search for a broad consensus on key economic and structural policies and the large number of political parties supporting the coalition government often make the decision-making process cumbersome and slow, resulting in long delays in the adoption and implementation of economic reforms. The absence of a government majority in the National Assembly has also made the task more difficult.

II. Background and Performance Under the 2000-01 Program

A. Recent Developments

5. **The economic performance in 2000 and the first half of 2001 was in line with the program objectives.** Real GDP growth continued to be sustained in 2000, rising to 5.8 percent, compared with an objective of 5.3 percent (Table 3 and Figures 2), on account of a rebound in the production of cotton and a higher-than-projected increase in foodstuff production. End-of-period inflation rose to 9.8 percent in December 2000 but fell back to 3.2 percent by end-August 2001. The external current account deficit, including current official transfers, widened from a revised 7.6 percent of GDP in 1999 to 8.0 percent in 2000, largely on account of delays in the disbursements of grants tied to the adjustment program. (Table 7). Excluding current official transfers, the current account deficit was close to the expected level. While the terms of trade improved slightly, the volume of exports declined, as cotton exports returned to trend after having sharply increased in 1999, when the public enterprise, SONAPRA, sold cotton stocks to strengthen its financial situation. In spite of a lower-than-expected level of current official grants, Benin continued to contribute to the international reserves of the Central Bank of West African States (BCEAO), given the high level of external assistance for investment projects and debt relief received by the country. The nominal effective exchange rate depreciated in 2000, resulting mostly from the appreciation of the U.S. dollar against the euro, to which the CFA franc is pegged; however, the real effective exchange rate appreciated on account of the large increase recorded in the consumer price index in Benin (Table 3).

6. A narrowing of the private saving-investment gap in 2000 was more than offset by a widening of the gap for the government (Table 4). The gap for the private sector was reduced from 8.7 percent of GDP in 1999 to 6.6 percent of GDP in 2000, owing to an increase in domestic private saving and current transfers from abroad. By contrast, government saving declined by 1.1 percentage points of GDP to 6.3 percent, as expected, as a result of an increase in current expenditure and a drop in foreign grants; meanwhile, public investment increased by 1.3 percentage points of GDP to 7.6 percent.

7. **All quantitative performance criteria for March 2001 were met (Table 14).** The structural benchmark on the merging of the civil service databases in the ministry in charge of the civil service and the payroll unit in the Ministry of Finance was met in early September 2001,

instead of March, because of technical problems. Spending on education and health was below the indicative targets stipulated in the program.

B. Macroeconomic Policies

8. **The fiscal performance was satisfactory in 2000** (Table 5). The overall fiscal deficit, on a payment order basis and excluding grants,[4] was held to the program target (3.5 percent of GDP) and was financed mainly by international assistance and nonbank domestic borrowing.[5] Total revenue rose to 16.6 percent of GDP, or 0.7 percentage point more than expected, owing to a strengthening of tax administration. Based on preliminary data, total government expenditure rose to 20.1 percent of GDP, or 0.6 percentage point more than targeted, largely because of an acceleration of budgetary spending toward the end of the year.[6] While total outlays for education and health rose at a slower pace than other outlays, their share in GDP remained stable (at 4.8 percent, Table 12).

9. **In the first half of 2001, the overall fiscal position, excluding grants, was stronger (a surplus of 0.3 percent of GDP) than targeted (a deficit of 1.7 percent), because government expenditure was much lower than expected.** Although spending for the presidential campaign was about 50 percent higher than the budget appropriations for both the presidential and local elections, there was a large shortfall in the implementation of other expenditures, mainly due to difficulties in operating a new expenditure management system. There was also a small revenue shortfall, because customs receipts were adversely affected by a tightening of controls by Nigeria at its border with Benin. With the overall fiscal surplus and a higher level of external financing than anticipated, the government increased its net deposits in the banking system by more than programmed.

10. **Although the growth rate of broad money was much higher than earlier projected, it declined to 21.3 percent in 2000 from 35.0 percent in 1999** (Table 6). About half this monetary expansion was underpinned by an improvement in the banking system's net foreign assets. At the same time, the growth rate of bank credit to the nongovernment sector was cut by one-half to 25.5 percent. These trends continued during the first semester of 2001. Broad money growth slowed further to 10.9 percent, and was driven entirely by a more substantial increase in net foreign assets. Net domestic assets of the banking system decreased because the government increased its net deposits in the banking system and the growth rate of bank credit to the nongovernment sector continued to decline. Following strengthened loan recovery efforts, the

---

[4] Throughout this report, the fiscal deficit is defined on a payment order basis, because the issuance of a payment order implies that the services and goods have been delivered.

[5] Benin issued bonds amounting to CFAF 5 billion on the regional financial market in March 2000 and offered domestic creditors bonds to settle domestic arrears.

[6] The rapid increase in spending created difficulties in keeping accurate records. Hence, expenditure data and the budgetary accounts for 2000 are expected to be reconciled and updated toward the end of this year.

nonperforming loans of commercial banks fell from 5.4 percent of total credit at end-December 2000 to 4.7 percent at end-June 2001.[7]

C. Structural Reform Implementation

11. **Structural reform implementation has been mixed since September 2000, especially in the months leading up to the presidential election.** In the cotton sector, the state enterprise (SONAPRA) lost its monopsony on the purchase of seed cotton from producers in June 2000, and sector participants created an autonomous agency (CSPR) for managing the marketing of seed cotton and settling bank credit that finances imports of fertilizers and pesticides. After some delays, the CSPR became fully operational in January 2001, which allowed the 2000/01 harvest to be completed on time. However, the CSPR was late in paying producers fully because of delays in receiving payments from SONAPRA and one private ginning enterprise. The CSPR has seized ginned cotton from the private enterprise and the issue is to be resolved by a judicial court. SONAPRA is expected to pay fully the CSPR by end-September 2001 from export proceeds. Discussions continue between the authorities and the World Bank on the strategy to privatize SONAPRA, the financial situation of which has weakened over the past two years. The privatization of other public enterprises, in particular those in the sectors of telecommunications, water and electricity distribution, and port management, have been at a standstill since the fall of 2000.

12. **With respect to the civil service**, the National Assembly has yet to amend the law relating to the new compensation system. The merging of the civil service databases was completed by September 2001, instead of March, as expected in the program. However, works continue for the payroll unit of the Ministry of Finance to have direct access to the merged database maintained at the Ministry in charge of the civil service. Implementation of the decentralization policy is awaiting the holding of local elections.

III. Medium-Term Strategy

13. **The government unveiled an ambitious five-year action plan**, covering the second term of President Kérékou, on August 1, 2001, Benin's Independence Day. In view of the favorable macroeconomic developments over the past few years and the availability of highly concessional external financing, the authorities considered that there was room for more expansionary policies, so as to achieve higher growth and thereby reduce poverty more rapidly. In particular, as agreed during a seminar on policies to accelerate growth, the authorities indicated that their objective was to raise real GDP growth from 5.8 percent in 2000 to 7 percent by 2004. To that end, the government prepared a list of projects, especially to develop infrastructures, as well as measures to encourage private domestic investment and attract foreign investment. The main objectives and areas of government policy proposed in the action plan are summarized in the attached MEFP (paras. 14 and 15). Over the same period, the government

---

[7] Although three of the five banks observed capital adequacy ratios, the financial situation of the two remaining banks (accounting for 20 percent of deposits) continued to deteriorate, and their risk-adjusted equity levels were below the prudential norms.

considered that inflation would remain below 3 percent, while the external current account deficit would remain at about 7 percent of GDP.

14. While recognizing the importance of accelerating growth and raising social outlays, the staff noted that, over the past few years, the slow implementation of structural reforms, especially the divestiture program, had hindered growth, while government spending had been constrained by the country's limited absorptive capacity. It cautioned the authorities against increasing public sector involvement in productive activities by providing incentives to specific sectors or enterprises. Instead, **it urged the government to improve the quality of public spending, focusing on basic infrastructure, health, education, and other social sectors, while creating an even playing field for private enterprises.** In particular, the staff stressed the need for streamlining and making more transparent the legal and regulatory framework for enterprises. In addition, the staff expressed concern about the government's five-year action plan, which was prepared separately from the ongoing work on the PRSP and MTEF. In response, the authorities emphasized that they expect the PRSP, which would cover the first three years of the government's action plan, to give a high priority to achieving strong growth and reducing poverty. They also indicated that, to achieve these objectives, they were firmly committed to macroeconomic policies and structural reforms under the PRGF-supported program.

IV. THE PROGRAM FOR 2001/02[8]

15. For 2001 and 2002, the staff and authorities projected somewhat higher real GDP growth (5.8 percent and 6 percent, respectively) than estimated previously. These growth projections were based on the expected expansion of food production and of activities in the construction, public works, commerce, and transport sectors. Inflation is targeted to be contained at less than 3 percent in 2001 and 2002. As regards the external current account, the improvement in the terms of trade in 2001 is likely to be short-lived because of a larger-than-expected drop in the export price of cotton. At the same time, cotton production is expected to stagnate, while the volume of imports is forecast to grow somewhat faster than earlier projected in the program. For these reasons, the external current account deficit is likely to widen from 6.6 percent of GDP in 2001 to 7.0 percent in 2002.

A. Fiscal Policy and Budget Reform

16. **The staff agreed with the authorities that, in 2001, the overall fiscal deficit, on a payment order basis and excluding grants, was likely to be smaller (4.1 percent of GDP) than targeted (4.4 percent of GDP).** Total government revenue should be ½ of 1 percentage point above the program target (16 percent of GDP), given the outcome in the first half of the year and the continued efforts to reduce tax fraud and corruption. While there has been a compression of expenditures in the first half of the year and appropriations for current nonsocial outlays will be reduced, total expenditure for the year has been revised slightly upward to 20.6 percent of GDP. This would cover an increase in spending in the health and education

[8] The second-year program under the PRGF covers the period July 1, 2001-June 30, 2002.

sectors,[9] some transfers payments to WAEMU, and the purchase of an airplane for the President.[10] The authorities also indicated that the expected debt relief under the HIPC Initiative and other external assistance would allow them to finance the fiscal deficit as well as make a modest net repayment of the domestic debt.

17. **For 2002, the authorities intend to contain the overall fiscal deficit at 4.2 percent of GDP, which is 0.3 percentage point more than expected under the medium-term program to accommodate higher capital spending**. The overall financing gap is estimated at about 1.7 percent of GDP. This gap should be more than covered by debt relief to be obtained in the context of the HIPC Initiative (1 percent of GDP), Fund assistance (0.4 percent of GDP), and grants and loans tied to adjustment programs from the European Union (0.3 percent of GDP) and possibly from the World Bank and bilateral donors.

18. The staff and the authorities concurred that **a further improvement in tax administration would be sufficient to raise total revenue from 16½ percent of GDP expected in 2001 to 16.7 percent in 2002.** As recommended by past Fund technical assistance missions, the authorities intend to focus on strengthening the tax unit in charge of large enterprises, cross-checking customs declarations with information from the domestic tax department and an import preshipment inspection company, and combating fraud and corruption. Also, grants are expected to amount to the equivalent of 2.6 percent of GDP, bringing total revenue and grants to 19.3 percent of GDP.

19. **Total government expenditure is expected to rise to 20.9 percent of GDP in 2002.** The authorities agreed to keep the wage bill at 4½ percent of GDP but indicated that, in view of the low staff level in many ministries, they would replace all departing staff, instead of recruiting two new staff for three departures, as was done at present. In addition, contractual primary teachers and basic health employees would continue to be hired at the local level and financed through central government transfers with resources obtained in the context of the HIPC Initiative. As for the opportunity of a pay raise, the staff's position was that it should be considered only after the implementation of a new compensation system since, in both 2000 and 2001, salaries had been increased by an average of 8 percent with the understanding that the measure would be put in place. The authorities agreed to keep the pay raise within the wage bill ceiling, and to ask the National Assembly to vote on the required amendment to the law on the compensation system before end-2001, so that it could be implemented in early 2002. If the amendment were voted down, the authorities would consult with Fund and World Bank staffs before granting a pay raise. In addition, as salary increases have been larger in Benin than in other WAEMU member countries since the devaluation of the CFA franc in 1994, the staff emphasized the importance of limiting the pay raise so as to avoid weakening the country's

[9] The increase in social expenditures reflects the use of additional interim assistance received in the context of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

[10] In spite of the purchase of an airplane, the overall fiscal target, on a payment order basis, is expected to be observed, given the low level of budget execution in the first half of 2001. The authorities also indicated that they would inform the staff before entering into an agreement to purchase the plane, which is to be financed within the currently available budgetary resources. However, if they decided to finance this purchase with a foreign loan, they agreed to ensure that such borrowing is on highly concessional terms.

competitiveness. As regards public investment, the government indicated that it would rise to 8.5 percent in 2002 from 8 percent in 2001, partly by raising the execution rate of projects from 80 percent to 90 percent over that period. To do so, the authorities intended to increase the use of specialized autonomous agencies to execute projects.

20. **The staff discussed measures to strengthen budget execution, which are described in the attached MEFP (paras. 7 and 25), and the conclusions of the Preliminary Report on the Observance of Standards and Codes** (Box 1). In addition to improving the new expenditure management system, the government is preparing, with the assistance of World Bank and other donors, medium-term spending programs for the Ministries of Education, Health, Rural Development, Transportation, and Urban Development and Environment. The ministries are also preparing unified budgets that cover all current and capital expenditures of the government. These sectoral programs and budgets will be submitted to the National Assembly with the overall budget for 2002. As the objectives for capital spending have not been met in the past, the staff

Box 1. Benin: Preliminary Report on Fiscal Transparency and Tracking of Poverty-Reducing Public Expenditure

A mission of the Fiscal Affairs Department visited Cotonou in May 2001 to assist the authorities in preparing a fiscal module of a Report on the Observance of Standards and Codes (ROSC) and assessing the capacity of the public expenditure management system in tracking poverty-reducing outlays. The main conclusion was that important steps had been taken to improve fiscal transparency in Benin in recent years, but more should be done. It recommended the following:

- improving the availability of public finance statistics to the public;
- strengthening the preparation, execution, and management system of the budget;
- improving the quality of budgetary data and ensuring their auditing by an independent agency; and
- clarifying and strengthening the role and the responsibilities of the different government entities.

Concerning the capacity of the public expenditure management system to track poverty-reducing public expenditures, the mission recommended a three-year action plan in order to

- establish a unified budget;
- improve the availability of information on public expenditure financed by external grants;
- establish a medium-term expenditure framework;
- strengthen the internal audit system; and
- accelerate the preparation of the final government accounts.

The mission also agreed with the authorities on a short-term action plan containing the following list of actions:

- correct the problems with the new computerized expenditure management system (SIGFIP) and intensify the training for users;
- integrate the operations of the external debt-management agency (CAA) into SIGFIP; and
- strengthen the financial control units.

urged the authorities to strengthen project preparation and monitoring with the assistance of the World Bank and other donors, so as to attain the rate of project execution planned for 2002. Individual ministries will be managing and monitoring budget execution according to sector-specific indicators. Budget outturns will be audited by a Chamber of Accounts, which is to be strengthened through technical assistance from donors.

B. Regional Monetary Policy and the Financial Sector

21. **Regional monetary policy in 2002 will remain consistent with the fixed peg regime and a further increase in the net foreign assets of the BCEAO**. For Benin, broad money is projected to expand at a slightly faster pace than nominal GDP growth. Net domestic assets of the banking system would increase by only 4.4 percent in terms of beginning-of-period broad money, with net credit to the government continuing to decline and bank credit to the nongovernment sector increasing by about 13.9 percent.

22. As regards the financial situation of the banking system, **the government replaced the management of two banks in September 2001** in light of the financial problems and mismanagement that the regional banking commission's audits had uncovered a year ago. Also, as one of the two banks is still state-owned, they indicated that an action plan to privatize it would be adopted by December 2001. The privatization may require the government to take over some of the bank's nonperforming assets estimated at 0.2 percent of GDP.[11] Meanwhile, the government would pursue efforts to have all banks meet the regional banking commission's prudential ratios. In particular, by January 1, 2002, banks will be required to meet a capital adequacy ratio of 8 percent, in line with international standards. Already, all banks other than the two banks facing difficulties meet this ratio. As regards the financial health of the cooperative and mutual credit institutions, the authorities indicated that, with donors' support, they would continue to strengthen the unit in charge of supervising these institutions, enforce the regional law and regulations concerning them, and provide training to their personnel. The authorities also intended to ensure that the largest cooperative and mutual credit institution, FECECAM,[12] continued to carry out its rehabilitation plan with the assistance of foreign experts.

C. Other Structural Reforms

23. **The government remains committed to implementing the structural reform program outlined in the MEFP** (paras. 29-35). In particular, in addition to the budget and civil service reforms, it intends to implement its decentralization policy and pursue its divestiture program. The reforms are essential to improve the quality of public expenditure and accelerate growth. Box 2 provides a summary of structural conditionality under current and past Fund-supported programs and of the areas where the World Bank staff has taken the lead.

24. **The reform of the public administration** has received broad technical and financial support from donors over the past ten years, but progress has been limited. In addition to the implementation of a new compensation system for the civil service,[13] the reform is to include a reorganization of ministries and the preparation of staffing plans. The latter is to take into account the decentralization reform, which will transfer responsibilities for primary education

---

[11] This cost reflects the overdue principal payments.

[12] FECECAM is the Federation of Rural Savings and Loans Cooperatives.

[13] The new compensation system is essential to moderate salary increases, improve civil service management, and eliminate gaps between salaries paid and those corresponding to grade levels. The gaps arose because civil servants continued to move up along their job ladders, while salary increases were blocked from 1986 to 1992. While salaries have more than doubled since 1992, the increase was insufficient to reestablish the link between salaries and grades.

Box 2. Benin: Structural Conditionality

Coverage of structural conditionality in the 2000-03 program

The first-year program under the three-year PRGF arrangement contained **two structural performance criteria** on improving public expenditure management and tax administration that were observed, and **one structural benchmark** related to civil service reform that was observed late. The three measures had the objective of strengthening public resources management. The second-year program includes four structural benchmarks seeking to contain wage increases, and thereby maintain the country's competitiveness, improve information on government spending and potential government liabilities, and strengthen the banking system.

To arrive at the completion point under the HIPC Initiative, Benin will have to satisfy four structural conditions: two in the area of government financial management, one on governance, and one on adopting a strategy for the privatization of the cotton monopsony.[1/] In addition, **five completion point conditions** are related to outcomes in the health and education sectors.

Status of structural conditionality from earlier programs

During the first half of the second annual Enhanced Structural Adjustment Facility (ESAF)-supported program covering the period October 1998–March 1999, there were **four structural benchmarks,** with two related to the civil service reform, one to tax administration, and one to privatization of the public oil-distributing company. **Three out of the four benchmarks were observed, but with delays**. The second half of the 1998/99 program, covering the period April-September 1999, included six structural performance criteria, of which two were on the privatization of public enterprises, [1/] two on civil service reform, one on tax administration, and one on petroleum price setting. Out of the six criteria, five were observed with delays, and one, related to the privatization of the water/electricity public utility, was not observed.

Structural areas covered by World Bank lending and conditionality

The World Bank is assisting the authorities in public expenditure management through an expenditure reform adjustment credit approved in March 2001. Key actions that are supported by this credit in 2001 and benchmarks for subsequent adjustment credits are (i) formulation of a medium-term expenditure framework for 2002-04, based on the PRSP; (ii) strengthening of the formulation of sectoral spending strategies in five ministries; (iii) presentation of a 2002 budget to the National Assembly that is strongly oriented toward growth and poverty reduction; (iv) monitoring of the execution of the 2001 budget on a semiannual basis; (v) observance of performance criteria with respect to public procurement; and (vi) completion by the Chamber of Accounts of a performance audit for the 2000 budget. In addition, triggers for a poverty reduction support credit (PRSC) include completion of a satisfactory PRSP; progress in implementing the cotton sector reform program; tangible progress in the privatization of public enterprises[1/] and in setting up appropriate regulatory frameworks in privatized sectors; and improved execution rates for development expenditure.

The World Bank is increasingly moving toward ex-post assessments of progress, and toward modulating its financial support to the pace of reform implementation. Consistent with the need for satisfactory sectoral strategies to underpin its investment lending, World Bank approval of proposed power projects requires agreement on the privatization of the management of the water and electricity company, SBEE.[2/]

Other areas relevant to the Fund program and in which the World Bank is assisting the authorities include (i) the decentralization process; (ii) governance; (iii) the privatization of public enterprises,[1/] (iv) health; (v) education; and (vi) social indicators. The Bank does not have specific structural conditions in those areas, but does monitor progress as a basis of its assistance.

Other relevant structural conditions not included in current program

The privatization of public enterprises[1/] outside the cotton and electricity sectors is an area of macroeconomic relevance, particularly for boosting growth, and is not covered by any conditionality.

1/ Privatization of a public enterprise involves the sale of its assets.
2/ Privatization of the management of a public enterprise means that it would be managed by a private entity under a management contract.

and basic health to newly created local governments to be headed by elected officials. While the decentralization laws were adopted, including their sources of funding for local government, their implementation is awaiting the holding of local elections. In addition, the reform of the civil service pension fund (FNRB) is awaiting the completion of an actuarial study that is to recommend measures to eliminate the deficit, which is currently covered by the budget and amounts to ½ of 1 percent of GDP.

25. **To complete the reform in the cotton sector, the government intends to adopt, with the assistance of the World Bank, a strategy for the privatization of SONAPRA.** As a first step, a study is underway to assess the possibility of selling the enterprise in several lots, so as to increase competition among ginning enterprises and thereby improve the sector's efficiency and producers' revenue. The adoption of a strategy to privatize SONAPRA is a condition for Benin to arrive at the completion point under the HIPC Initiative. In addition, to ensure the success of the reform, the World Bank staff is discussing a credit that will finance measures to strengthen the new institutions managing the sector, as well as the producers' associations.

26. **To accelerate economic growth and improve service delivery, a broad consensus is emerging on the need to draw private expertise and capital into key public enterprises, either through privatization or different forms of public-private partnerships.** However, the opposition of the employees of public enterprises remains an obstacle to a rapid implementation. For the enterprise SBEE, distributing water and electricity, a seminar, in which representatives of the civil society participated, recommended that it be split into two entities, which will be managed by private firms. The authorities expect to complete the restructuring of the enterprise with the assistance of the World Bank before end-2002. In addition, the authorities will prepare a plan to strengthen the SBEE's financial situation by end-October 2001, since the enterprise made losses over the past two years. As regards telecommunications, the National Assembly is expected to vote on the law separating the post office from the telecommunications entity in the coming months. This action would allow the government to privatize the telecommunications entity by July 2002. The authorities are expected to select an option for private sector participation in the management of the Port of Cotonou by mid-2002. The government also plans to select a strategy for the privatization of public enterprises in the textile industry during the coming year.

D. Governance

27. **Good public and corporate governance remains one of the government's priorities.** To that end, a year ago a commission prepared a national strategy to fight corruption, after broad consultation with the civil society. The government expects to adopt the strategy by the end of the year after resolving legal issues, especially those that would ensure the autonomy of the implementing agency. The strategy, which is a condition to reach the completion point under the HIPC Initiative, seeks to strengthen the rule of law and public administration, including the legal framework and the judicial system, as well as financial administration and public procurement. In that context, the ongoing reform of the budget process and the strengthening of the Chamber of Accounts will improve public finance transparency and accountability.

28. In line with these efforts, the staff urged the authorities to pursue vigorously cases of corruption brought to their attention and prosecute any verified acts. As regards problems that had risen with the privatization of the enterprise distributing petroleum products, SONACOP, the

authorities indicated that they would pursue the judicial actions taken to protect the state's interest, and would recover from the enterprise arrears on tax payments before year's end and on dividend payments by next year.

E. Poverty Alleviation and Preparation of the PRSP

29. On the basis of the interim PRSP and the poverty reduction programs to be supported with the resources obtained under the enhanced HIPC Initiative, the authorities have begun to focus on developing the basic education and health services. For education, the authorities have eliminated tuition fees for all schoolchildren, and allocated funds for rehabilitating classrooms and hiring teachers for the local communities. In the health sector, the authorities have increased budget appropriations for reproductive health, child immunization, and prevention of HIV/AIDS. These social expenditures were financed largely by HIPC Initiative resources, which amounted to CFAF 3.5 billion in 2000 and CFAF 18.7 billion in 2001. As a result, in 2001, total outlays for health and education would increase (20 percent) more sharply than total government expenditure (12 percent). Looking forward, the authorities intend to prepare a medium-term expenditure framework and improve the expenditure management system to facilitate the tracking of overall government spending benefiting the poor.

30. Following the preparation of an interim PRSP in June 2000, work on the full PRSP progressed slowly before the presidential election held in March 2001. Nevertheless, since then, as indicated in the authorities' progress report on the preparation of the PRSP and the joint staff assessment, sufficient progress has been made for the authorities to expect completing the first draft of the PRSP by October 2001, and the final draft to be validated through broad consultations before year's end.

31. **The authorities consider critical the integration of social impact analysis in their antipoverty strategy**. Preliminary indications show that poverty in Benin remains widespread, and poverty indicators are close to the sub-Saharan average (Table 13). As part of the PRSP preparation, the authorities have carried out a study to assess the impact on poverty reduction of the economic and structural policies undertaken over the past decade. The study, which is based on household surveys, concludes that the proportion of the population below the poverty line increased during the 1990s. However, the staff suggested that further analysis be conducted in order to explain how and why poverty had increased, while social indicators and real per capita GDP had improved.[14]

32. The authorities expect that the structural reforms planned under the program would not only improve the efficiency of the economy but also benefit the poor over the medium term. In particular, the privatization of the SBEE will rapidly upgrade services and possibly reduce costs to consumers. At the same time, investment in the distribution of water and energy in rural areas will most likely remain under the government's responsibilities as the profitability of such

---

[14] The poverty line rose during the 1990s apparently because of a problem in defining its nonfood component, which is based on the average spending on nonfood items by all households instead of only poor households. The poverty line also includes the expenditure required to cover the cost of a minimum basket of food items. On the basis of these two elements, the poverty line was estimated at CFAF 77,124 (US$106 equivalent) per head in 1997.

investment is uncertain. The liberalization of the cotton sector and the strengthening of producer associations are expected to give producers a larger share of revenue generated by the sector, while providing greater flexibility in managing the impact of external shocks. The reform of the compensation system of the civil service will help contain pay raises and keep the wage bill at a sustainable level. It will thereby provide additional resources for hiring in health and education. Also, reducing the deficit of the civil service retirement fund will free government resources for social programs.

33. In spite of the benefits expected from structural reforms in the medium term, the authorities recognized that, in the short run, some of the reforms might have a negative impact on the poor. Hence, in the context of the preparation of the MTEF and the budget programs for ministries, the authorities intend to assess the social impact of key reforms with the assistance of World Bank staff and other donors. In particular, they will seek to cushion the potential negative impact on low-income households of the divestiture program and possible adjustments in utility tariffs. The measures would be discussed with Fund and World Bank staffs and their costs covered by using part of a provision of CFAF 10 billion allocated in the budget for spending related to the restructuring of the economy. The government is to use the rest of the provision for reimbursing the private sector for deposits that were frozen when state-owned banks were liquidated in the late 1980s.

V. Medium-Term Balance of Payments Outlook, and Capacity to Repay the Fund

34. The medium- and long-term balance of payments projections presented at the time of the first review of the program have been updated based on the most recent available information and the latest projections of the World Economic Outlook (Box 3). Benin's external current account deficit is expected to narrow from 8 percent of GDP in 2000 to 6.6 percent in 2001 and 7.0 percent in 2002. In spite of a larger external current account deficit than originally programmed, the overall balance of payments is expected to register surpluses over the period on account of a high level of external assistance and direct investment in the context of the privatization program. Benin may also continue to benefit from large short-term capital inflows, since financial and political stability has made the country a safe haven for private capital from the region. Benin has a very good record of servicing its debt-service obligations, and, in view of its satisfactory balance of payments and fiscal positions, it is expected to discharge its future obligations to the Fund in a timely manner.

35. **The main risk to the forecast concerns the international price of cotton**, which the World Economic Outlook currently projects to fall from 59 U.S. cents per pound in 2000 to 51.8 cents in 2001 and 2002, before recovering slowly thereafter. An alternative scenario was prepared using, for 2002, the price of the March 2002 future contract for cotton at end-August 2001 (U.S. 41 cents per pound) and, for the following years, the same trend as the one projected in the World Economic Outlook. Under such a scenario, and assuming that everything else remains the same, the current account deficit would widen by 1.5 percentage points of GDP in 2002 and 1.3 percentage points of GDP in 2003. Hence, the overall balance of payments would probably record small deficits, which Benin should be able to finance by drawing on its international reserves. Nevertheless, an important risk is that, at the low projected price, growing

cotton may become unprofitable for a majority of producers. This development would have a negative impact on economic growth, poverty, and, potentially, on Benin's fiscal situation over the medium term. Even though the cotton sector contributes marginally to government revenue, the authorities may need to provide a safety net to producers, perhaps as high as ¾ of 1 percent of GDP. Moreover, such a drop in the price of cotton may affect the banking system as total exposure to the cotton sector (loans and off-balance sheet items) amounted to the equivalent of 2.7 percent of GDP at the end of August 2001, including 1.7 percent for SONAPRA. Finally, further delays in implementing the much-needed key structural reforms in the public sector could undermine the fiscal position and growth prospects.

Box 3. Benin: Balance of Payments, 1999-2004

(In billions of CFA francs, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004
		Est.		Projections		
Program scenario						
Trade balance	-154.3	-177.8	-180.8	-188.3	-202.8	-210.6
Exports, f.o.b.	137.0	130.8	154.4	165.1	175.3	195.9
Of which						
Cotton	114.2	107.3	120.2	127.8	134.8	152.0
Imports, f.o.b.	-291.2	-308.5	-335.2	-353.3	-378.1	-406.4
Current account	-111.1	-128.2	-121.9	-134.0	-149.2	-153.0
As a percentage of GDP	-7.6	-8.0	-6.9	-7.0	-7.2	-6.7
Overall balance	111.1	51.5	51.3	10.1	9.9	-10.2
Alternative scenario						
Trade balance	-154.3	-177.8	-180.8	-215.4	-231.5	-242.8
Exports, f.o.b.	137.0	130.8	154.4	138.0	146.7	173.6
Of which						
Cotton	114.2	107.3	120.2	100.7	106.2	119.8
Imports, f.o.b.	-291.2	-308.5	-335.2	-353.4	-378.1	-406.4
Current account	-111.1	-128.2	-121.9	-162.0	-177.8	-185.2
As a percentage of GDP	-7.6	-8.0	-6.9	-8.5	-8.5	-8.1

Sources: Beninese authorities; and staff estimates and projections.

36. **Benin reached the decision point under the HIPC Initiative in July 2000** and is expected to reach the floating completion point by early 2002, once a full PRSP has been prepared and the authorities have met all other conditions. In the interim, Benin has benefited from assistance granted from the Fund, the World Bank, the African Development Bank, the European Union, the Organization of Petroleum Exporting Countries (OPEC), the West African Bank of Development (BOAD), and Paris Club creditors amounting to CFAF 5.6 billion (0.3 percent of GDP) in 2000 and CFAF 18.7 billion (1.0 percent of GDP) in 2001.

China and the BCEAO also indicated that they would provide debt relief after the completion point.

VI. Statistical Issues

37. The national accounts statistics suffer from the lack of a comprehensive data collection system, which is reflected, for example, in the deficient data on private savings and investment, in accounting for the output of the informal sector, and in measuring agricultural production for own consumption. The balance of payments data only partially capture informal regional trade (especially with Nigeria), while the financial accounts suffer from limited coverage with regard to the foreign assets of the private nonbank sector and weaknesses in the reporting of foreign direct investment transactions. The data deficiencies do not, however, hamper the ability of staff to conduct effective surveillance of economic policies. The authorities have been regularly providing core data for surveillance to the Fund and are continuing their efforts to improve their quality, coverage, and timeliness. The government also participates in a regional project to harmonize and improve macroeconomic data (Appendix IV).

VII. Staff Appraisal

38. **The staff considers the economic and financial performance during the 2000-01 program to have been broadly satisfactory**. All quantitative performance criteria were observed, and the structural benchmark on the creation of a unified database for the civil service was implemented, albeit late. Nevertheless, there were delays in the implementation of structural reform and in preparing a full PRSP, especially during the months leading up to the presidential elections held in March 2001. Therefore, the government needs to move forcefully in implementing measures that are essential for improving the economy's efficiency and attaining the ambitious growth objectives set for the medium term.

39. **The fiscal stance remains appropriate in 2001 and in the preliminary budget for 2002**. Nevertheless, the government needs to improve the level and the quality of government expenditure and ensure that the 2002 budget is strongly oriented toward growth and poverty reduction. In this context, it is essential to first resolve problems encountered early this year in the expenditure management system and, second, to pursue the reform undertaken with the support of the international community aimed at strengthening budget preparation and execution, and measuring outcomes against a clear set of indicators. Particular attention should be paid to improving the preparation of investment projects, so that they can be executed efficiently and in a timely manner.

40. **The authorities need to accelerate structural reform implementation.** In particular, the opening of all productive sectors to private investment, including through privatization, and the streamlining of the legal and regulatory frameworks are essential to broaden and strengthen the economic base, promote high and sustainable economic growth, and reduce poverty. It is also important that the long-delayed reform of the civil service compensation system be rapidly implemented, since it would reduce pressures to increase salaries, which represent a serious risk to the country's long-term fiscal viability and competitiveness. In addition, such a reform would improve civil service management and help meeting staffing requirements.

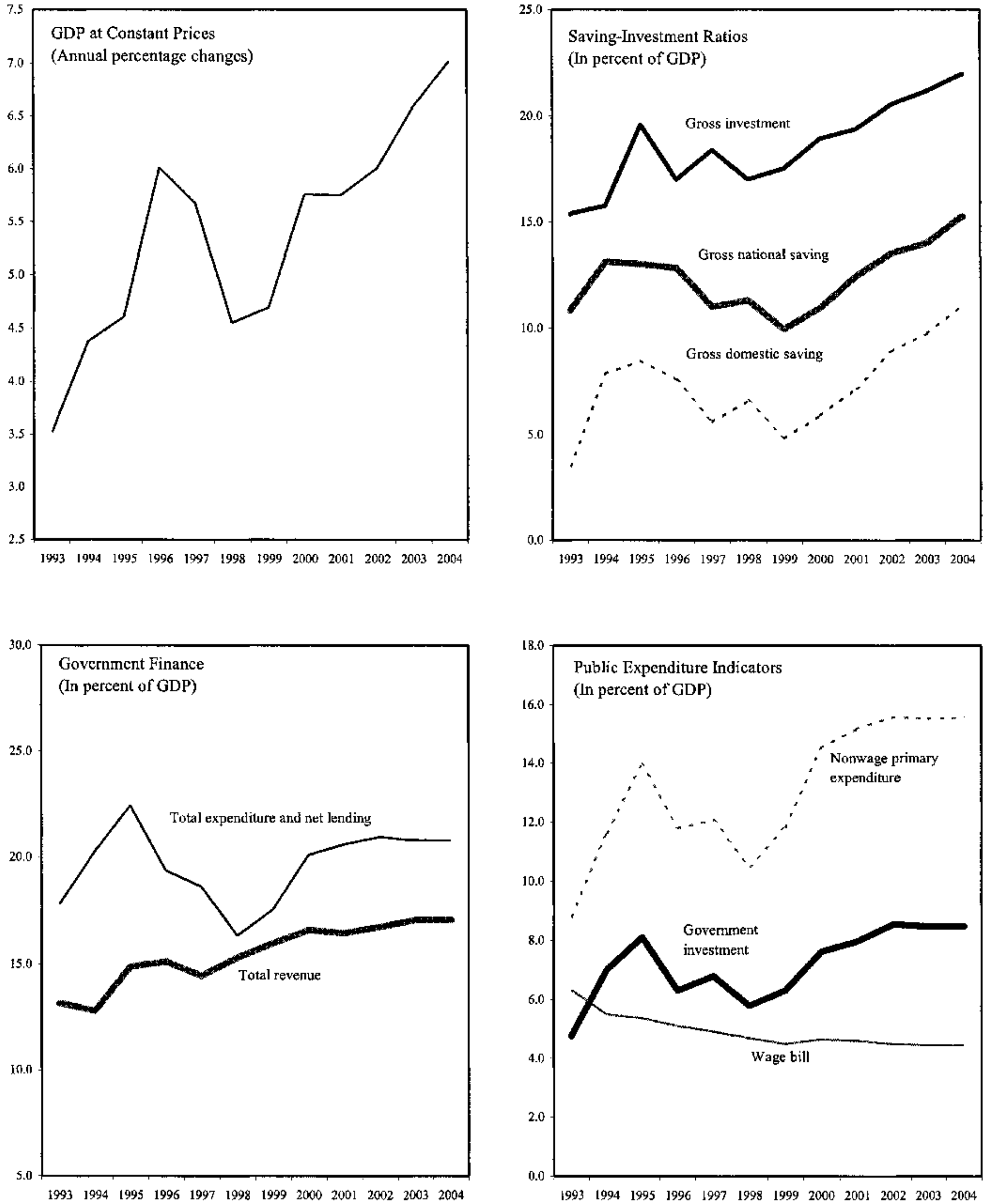
41. **The staff welcomes the implementation of the regional banking commission's recommendations for dealing with the two banks experiencing difficulties.** This action and efforts to ensure that banks observe all prudential ratios are key measures needed to strengthen the financial sector.

42. **The authorities have made good progress toward the preparation of a comprehensive poverty reduction strategy, which should be available before the end of the year.**

43. **Benin's economic database is comprehensive but remains weak.** The authorities have been regularly providing core data for surveillance to the Fund and are urged to continue their efforts to improve their quality, coverage, and timeliness. They are also encouraged to continue working closely with other countries in the WAEMU to implement a common statistical methodology in key economic and financial areas.

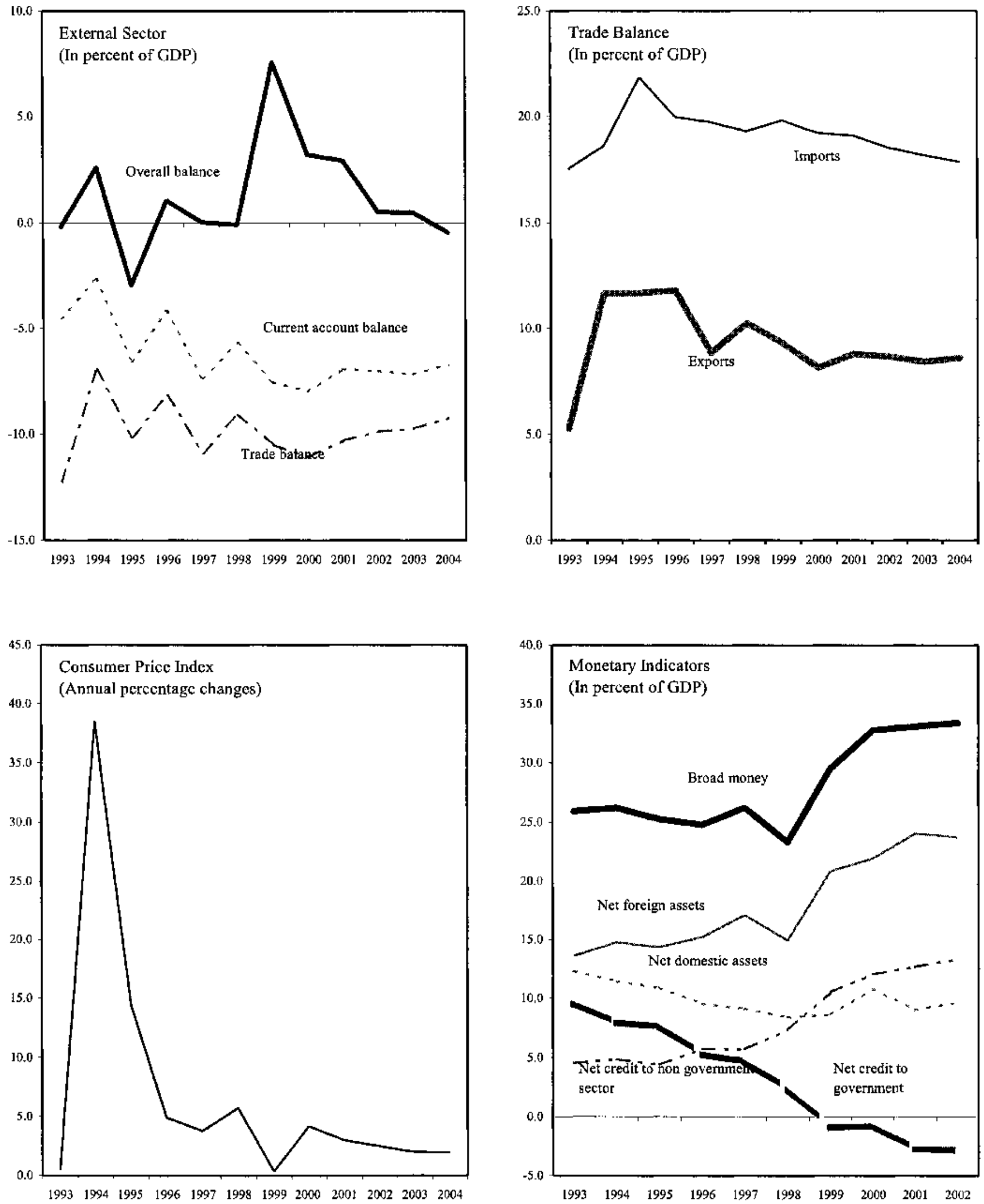
44. In view of the satisfactory developments under the program and the policies being implemented in 2001, the staff recommends that the second review under the three-year PRGF arrangement be completed.

Figure 1. Benin: Selected Economic and Financial Indicators, 1993-2004 1/



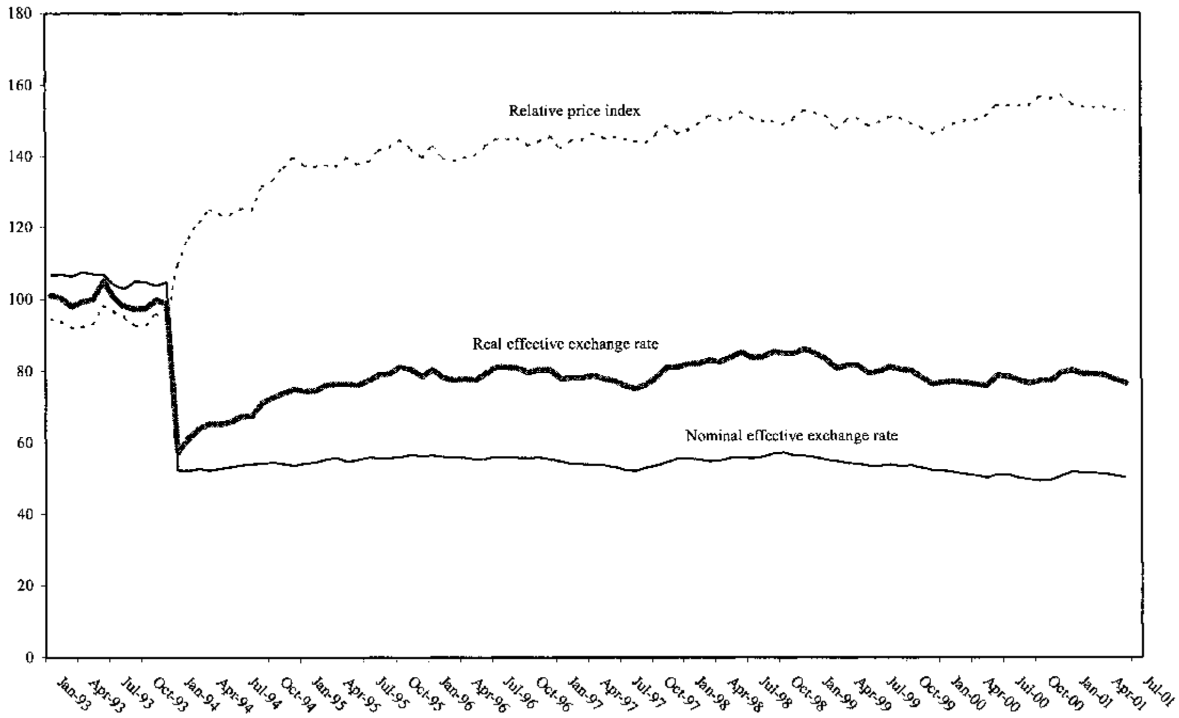
Sources: Beninese authorities; and staff estimates and projections.
1/ Data for 2001-04 are projections.

Figure 2. Benin: Selected External and Monetary Indicators, 1993-2004 1/



Sources: Beninese authorities; and staff estimates and projections.
1/ Data for 2001-04 are projections.

Figure 3. Benin: Effective Exchange Rates, January 1993-June 2001 1/
(Index, 1990 = 100)



Source: IMF, Information Notice System (INS).
1/ A rise in the exchange rate variables indicates an appreciation of the domestic currency.

Table 1. Benin: Proposed Schedule of Disbursements Under the Remainder of the PRGF Arrangement, 2001-03

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 4.04 million	October 15, 2001	Observance of the performance criteria for March 31, 2001 and completion of the second review under the arrangement.
SDR 4.04 million	March 15, 2002	Observance of the performance criteria for December 31, 2001 and completion of the third review under the arrangement.
SDR 4.04 million	September 15, 2002	Observance of the performance criteria for June 30, 2002 and completion of the fourth review under the arrangement.
SDR 2.69 million	March 15, 2003	Observance of the performance criteria for December 31, 2002 and completion of the fifth review under the arrangement.
SDR 1.35 million	September 15, 2003 2/	Observance of the performance criteria for June 30, 2003 and completion of the sixth review under the arrangement.

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement, including the continuous performance criterion on nonaccumulation of arrears, and the performance clauses on the exchange and trade system.

2/ The authorities will request an extension of the arrangement in the context of subsequent review under the program to allow disbursement of the final loan.

Table 2. Benin: Fund Position During the Remainder of the PRGF Arrangement, July 2001-December 2003

	2001	2002		2003	
	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.
	(In millions of SDRs)				
Transactions under tranche policies (net)	0.00	0.00	0.00	0.00	0.00
Purchases	0.00	0.00	0.00	0.00	0.00
Repurchases	0.00	0.00	0.00	0.00	0.00
Structural Adjustment Facility (SAF)	-0.94	0.00	0.00	0.00	0.00
Loans	0.00	0.00	0.00	0.00	0.00
Repayments	-0.94	0.00	0.00	0.00	0.00
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF)	-1.47	-1.92	-1.92	-3.71	-4.26
Loans	4.04	4.04	4.04	2.69	1.35
Repayments	-5.51	-5.96	-5.96	-6.40	-5.61
Repayments (principal)	-5.19	-5.64	-5.64	-6.10	-5.31
Repayments (interest)	-0.32	-0.32	-0.32	-0.30	-0.30
Total Fund credit outstanding, end of period	61.13	59.53	57.93	54.52	50.56
Tranche policies	0.00	0.00	0.00	0.00	0.00
SAF	0.00	0.00	0.00	0.00	0.00
ESAF/PRGF	61.13	59.53	57.93	54.52	50.56
	(In percent of quota)				
Total Fund credit outstanding, end of period	98.8	96.2	93.6	88.1	81.7
Tranche policies	0.00	0.00	0.00	0.00	0.00
SAF	0.00	0.00	0.00	0.00	0.00
ESAF/PRGF	98.8	96.2	93.6	88.1	81.7

Source: IMF, Treasurer's Department.

Table 3. Benin: Main Economic Indicators, 1999-2004

	1999	2000		2001		2002		2003	2004
		Rev. Prog.	Est.	Rev. Prog.	Proj.	Rev. Prog.	Proj.	Proj.	
	(Annual changes in percent, unless otherwise indicated)								
National income									
GDP at current prices	6.7	10.4	9.2	8.1	9.4	8.2	8.6	9.1	9.4
GDP at constant prices	4.7	5.3	5.8	5.0	5.8	5.6	6.0	6.6	7.0
GDP deflator	1.9	4.9	3.3	2.9	3.4	2.5	2.4	2.4	2.2
Consumer price index (average)	0.3	3.9	4.2	3.0	3.0	2.5	2.5	2.0	2.0
Consumer price index (end of period)	-3.2	6.9	9.8	3.0	2.0	2.5	2.5	2.0	2.0
Central government finance									
Revenue	11.4	9.0	13.3	8.7	8.5	10.3	10.5	11.2	9.4
Expenditure and net lending	14.7	21.1	25.0	13.6	12.1	7.0	10.4	8.3	9.3
Money and credit									
Net domestic assets 1/	3.6	7.9	10.7	6.3	-3.9	...	4.4	...	...
Domestic credit 1/	2.2	6.1	9.4	3.0	-2.3	...	4.4	...	...
Net claims on central government 1/	-14.4	-0.8	0.3	-2.5	-7.8	...	-1.0	...	...
Credit to the nongovernment sector	52.7	19.3	25.5	14.3	14.7	...	14.0	...	...
Broad money	35.0	10.3	21.3	9.3	10.5	...	9.5	...	...
Velocity (GDP relative to average M2)	3.9	3.5	3.3	3.5	3.2	...	3.1	...	...
External sector (in terms of CFA francs)									
Exports, f.o.b.	-3.0	1.0	-4.5	9.9	18.0	8.9	6.9	6.2	11.8
Imports, f.o.b.	9.6	13.1	5.9	6.2	8.6	5.0	5.4	7.0	7.5
Export volume	25.1	-4.4	-11.6	-9.0	-3.1	4.0	11.2	5.1	4.1
Import volume	9.9	4.7	0.7	5.0	5.8	6.9	6.8	7.5	7.9
Terms of trade	-22.2	-2.2	2.7	19.5	18.7	6.7	-2.5	1.5	7.8
Nominal effective exchange rate (- deprec.)	-3.5	...	-2.9	...	...	...	...	...	...
Real effective exchange rate (- deprec.)	-3.5	...	4.4	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Basic ratios									
Gross investment	17.5	18.6	18.9	19.5	19.4	20.0	20.5	21.2	22.0
Government investment	6.3	7.3	7.6	8.1	8.0	8.1	8.5	8.5	8.5
Private sector investment	11.2	11.3	11.3	11.4	11.4	11.9	12.0	12.7	13.5
Gross domestic saving	4.8	6.0	5.9	7.4	7.2	8.7	8.9	9.8	11.1
Government saving	5.5	4.7	4.9	4.5	4.7	4.9	5.1	5.5	5.5
Private saving	-0.7	1.3	1.0	2.9	2.5	3.9	3.8	4.3	5.6
Gross national saving 2/	9.9	11.3	10.9	12.6	12.8	13.5	13.5	14.0	15.3
Central government finance									
Revenue	16.0	15.9	16.6	16.0	16.5	16.3	16.7	17.1	17.1
Expenditure and net lending	17.6	19.4	20.1	20.4	20.6	20.2	20.9	20.8	20.8
Primary balance 3/	-0.7	-2.6	-2.6	-3.5	-3.2	-3.1	-3.3	-2.9	-3.0
Overall fiscal deficit (payment order basis) 4/	-1.6	-3.5	-3.5	-4.4	-4.1	-3.9	-4.2	-3.7	-3.7
Overall fiscal deficit (cash basis) 4/	-3.0	-5.6	-5.5	-4.6	-4.5	-3.9	-4.2	-3.7	-3.7
Debt service 5/	17.2	15.0	14.4	10.1	8.2	8.8	7.7	6.8	6.5
External sector									
Current account balance (- deficit) 2/	-7.6	-7.3	-8.0	-6.9	-6.6	-6.5	-7.0	-7.2	-6.7
Overall balance of payments (- deficit)	7.6	1.5	3.2	0.8	3.2	-0.5	0.5	0.5	-0.4
Debt-service ratio (before debt relief)	17.0	17.9	18.6	16.0	15.8	15.2	15.4	15.0	13.5
Debt-service ratio (after debt relief) 6/	17.0	15.3	16.2	10.3	8.8	9.1	8.5	7.8	7.5
Net present value of debt-to-exports ratio (after debt relief) 6/ 7/	228.9	157.5	228.5	149.6	133.4	144.0	124.6	116.3	105.7
Debt-to-GDP ratio (after debt relief) 6/	55.0	35.8	36.9	35.1	37.1	33.9	35.8	34.6	33.4
Nominal GDP (in billions of CFA francs)	1,469.9	1,610.4	1,605.4	1,740.1	1,755.7	1,883.1	1,906.5	2,080.5	2,275.3
CFA francs per U.S. dollar (period average)	615.7	...	712.0	...	...	...	...	...	...
Population (midyear, in millions)	6.1	6.3	6.3	6.5	6.5	6.7	6.7	6.8	7.0

Sources: Beninese authorities; and staff estimates and projections.

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

2/ Including current official grants but excluding project grants.

3/ Total revenue minus all expenditure, excluding interest.

4/ Before all official grants.

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

6/ In percent of current-year exports of goods and services, including IMF debt, and excluding debt to be paid by HIPC assistance.

7/ For 2000, data for revised program assumed debt relief in the context of HIPC Initiative.

Table 4. Benin: Macroeconomic Indicators, 1999-2004

(In percent of GDP, unless otherwise indicated)

	1999	2000		2001		2002		2003	2004
		Rev. Prog.	Est.	Rev. Prog.	Proj.	Rev. Prog.	Proj.	Proj.	
Resource gap (1)	12.7	12.6	13.0	12.0	12.2	11.2	11.6	11.4	10.9
Exports of goods and services	16.1	15.6	14.8	15.7	15.3	15.7	15.1	14.8	14.9
Imports of goods and services	28.8	28.2	27.8	27.7	27.5	26.9	26.8	26.2	25.7
Total gross investment (2)	17.5	18.6	18.9	19.5	19.4	20.0	20.5	21.2	22.0
Central government investment (A)	6.3	7.3	7.6	8.1	8.0	8.1	8.5	8.5	8.5
Private sector investment (B)	11.2	11.3	11.3	11.4	11.4	11.9	12.0	12.7	13.5
Domestic saving (3) = (2) - (1)	4.8	6.0	5.9	7.4	7.2	8.7	8.9	9.8	11.1
National saving (6) = (3) + (4) + (5)	9.9	11.3	10.9	12.6	12.8	13.5	13.5	14.0	15.3
Net factor income (4)	-0.7	-0.6	-0.8	-0.7	-0.8	-0.5	-0.8	-0.8	-0.8
Unrequited transfers (5)	5.8	5.9	5.9	5.8	6.4	5.3	5.5	5.0	4.9
Government national saving (7)	7.4	6.4	6.3	6.1	6.9	6.2	6.5	6.6	6.5
Budget deficit	-1.6	-3.5	-3.5	-4.4	-4.1	-3.9	-4.2	-3.7	-3.7
Government investment	6.3	7.3	7.6	8.1	8.0	8.1	8.5	8.5	8.5
Public transfers (current)	2.7	2.6	2.1	2.5	3.0	2.0	2.1	1.8	1.8
Government domestic saving (8)	5.5	4.7	4.9	4.5	4.7	4.9	5.1	5.5	5.5
Public transfers (current)	2.7	2.6	2.1	2.5	3.0	2.0	2.1	1.8	1.8
Net factor income	-0.8	-0.9	-0.8	-0.8	-0.8	-0.7	-0.8	-0.7	-0.7
Private national saving (9) = (6) - (7)	2.5	4.9	4.7	6.4	5.9	7.3	7.0	7.4	8.7
Private domestic saving (10) = (3) - (8)	-0.7	1.3	1.0	2.9	2.5	3.9	3.8	4.3	5.6
Saving-Investment balance	-7.6	-7.3	-8.0	-6.9	-6.6	-6.5	-7.0	-7.2	-6.7
Private sector Saving-Investment balance (9) - (B)	-8.7	-6.4	-6.6	-5.0	-5.5	-4.6	-5.0	-5.3	-4.8
Government Saving-Investment balance (7) - (A)	1.1	-1.0	-1.4	-1.9	-1.1	-1.8	-2.1	-1.9	-1.9
Nominal GDP (in billions of CFA francs)	1,469.9	1,610.4	1,605.4	1,740.1	1,755.7	1,883.1	1,906.5	2,080.5	2,275.3
Nominal GNP (in billions of CFA francs)	1,460.3	1,600.3	1,592.5	1,728.4	1,740.8	1,873.3	1,890.3	2,063.9	2,258.1

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

Table 5. Benin: Consolidated Government Operations 1999-2004

	1999	2000			2001					2002		2003	2004
		Rev. prog.	HIPC assist.	Est.	June Rev. prog.	June Est.	Rev. prog.	HIPC assist.	Proj.	Rev. prog.	Proj.	Proj.	
					(In billions of CFA francs)								
Total revenue	234.9	256.0	0.0	266.2	132.4	126.2	278.2	0.0	288.8	306.9	319.1	354.9	388.4
Tax revenue	200.8	225.1	0.0	234.1	117.4	114.8	246.8	0.0	253.9	273.5	280.1	313.5	344.7
Tax on international trade 1/	106.8	125.1	0.0	126.7	63.2	59.1	136.9	0.0	139.5	139.8	152.9	170.1	184.3
Direct and indirect taxes	94.0	99.9	0.0	107.4	54.2	55.7	109.9	0.0	114.4	133.7	127.2	143.4	160.3
Nontax revenue	34.0	30.9	0.0	32.1	15.0	11.4	31.4	0.0	34.9	33.5	39.0	41.5	43.7
Total expenditure	258.0	312.5	3.5	322.5	161.6	121.7	354.9	18.4	361.7	380.7	399.2	432.5	472.6
Wages	66.2	77.0	0.0	74.8	40.2	39.6	80.8	0.0	80.8	84.8	85.8	92.8	101.5
Pensions and scholarships	18.3	19.7	0.0	19.3	11.5	10.4	21.3	0.0	21.3	22.3	22.4	23.5	24.7
Current transfers	20.5	31.6	3.5	26.8	22.9	9.1	40.7	9.8	47.8	43.2	48.5	52.9	61.9
Other expenditure	42.4	48.3	0.0	64.7	27.0	22.5	57.4	1.0	57.4	64.6	63.1	70.5	74.6
Investment	92.8	117.9	0.0	122.5	51.9	34.3	140.1	0.0	140.1	151.7	163.0	176.4	193.0
Budgetary contribution	28.0	40.0	0.0	35.0	23.0	16.9	54.5	7.6	54.5	59.0	72.0	74.0	81.1
Financed from abroad	64.8	77.9	0.0	87.4	28.9	17.4	85.6	0.0	85.6	92.7	91.0	102.4	112.0
Net lending (minus = reimbursement)	4.5	2.5	0.0	0.3	0.0	0.0	-2.0	0.0	-2.0	0.0	0.0	0.0	0.0
Primary balance 2/	-9.7	-41.1	-3.5	-42.2	-21.2	10.2	-60.2	-18.4	-56.6	-58.7	-63.7	-61.2	-67.3
Interest	13.5	15.5	0.0	14.1	8.1	5.8	16.5	0.0	16.2	14.0	16.4	16.4	17.0
Internal debt	1.9	1.5	0.0	1.6	0.9	0.7	1.8	0.0	1.8	1.3	1.3	0.9	0.8
External debt	11.6	14.0	0.0	12.4	7.2	5.0	14.7	0.0	14.4	12.8	15.1	15.4	16.1
Overall balance (payment order basis)	-23.1	-56.6	-3.5	-56.3	-29.2	4.4	-76.7	-18.4	-72.8	-72.7	-80.1	-77.5	-84.3
Change in arrears	-24.6	-29.2	0.0	-30.6	-1.0	-1.6	-4.0	0.0	-4.0	-1.0	0.0	0.0	0.0
External debt (principal and interest payments)	-13.3	-14.8	0.0	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	-11.3	-14.4	0.0	-15.8	-1.0	-1.6	-4.0	0.0	-4.0	-1.0	0.0	0.0	0.0
Payments during complementary period/float	3.2	-4.3	0.0	-0.6	0.0	-1.5	0.0	0.0	-1.5	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-44.5	-90.1	-3.5	-87.5	-30.2	1.4	-80.7	-18.4	-78.3	-73.7	-80.1	-77.5	-84.3
Financing	44.6	89.9	3.5	87.5	30.3	-1.4	71.8	18.7	78.3	55.7	69.3	55.4	64.0
Domestic financing	-35.8	4.9	0.0	13.9	7.5	-27.3	-23.4	0.0	-49.1	-21.9	-17.2	-26.4	-26.2
Bank financing	-46.3	-3.3	0.0	1.2	7.5	-27.3	-12.0	0.0	-40.8	-21.9	-5.7	-19.9	-19.7
Net use of Fund resources	0.6	-2.6	0.0	-2.5	2.7	-0.5	0.7	0.0	-3.1	-4.2	-3.0	-6.9	-7.9
Disbursements	6.1	6.4	0.0	6.3	7.6	3.7	11.3	0.0	7.5	6.3	7.5	3.8	0.0
Repayments	-5.5	-8.9	0.0	-8.9	-4.9	-4.1	-10.6	0.0	-10.6	-10.5	-10.4	-10.7	-7.9
Other	-46.9	-0.7	0.0	3.8	4.8	-26.8	-12.7	0.0	-37.7	-17.6	-2.8	-13.0	-11.8
Nonbank financing	10.5	8.2	0.0	12.6	0.0	0.0	-11.4	0.0	-8.4	0.0	-11.5	-6.5	-6.5
Privatization	10.7	0.9	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.2	-2.1	0.0	1.4	0.0	-0.1	-10.0	0.0	-7.0	0.0	-10.0	-5.0	-5.0
Other	0.0	9.4	0.0	10.3	0.0	0.0	-1.4	0.0	-1.4	0.0	-1.5	-1.5	-1.5
External financing	80.3	85.0	5.6	73.7	22.8	25.8	95.2	18.4	127.5	77.6	86.6	81.8	90.2
Project financing	63.0	73.7	0.0	74.4	26.3	18.3	85.6	0.0	85.6	92.7	91.0	102.4	112.0
Grants	33.9	42.1	0.0	25.3	21.2	5.7	48.4	0.0	41.4	52.4	44.2	49.7	54.4
Loans	29.1	31.5	0.0	49.1	5.1	12.6	37.2	0.0	44.2	40.2	46.8	52.7	57.6
Amortization due	-23.6	-22.6	0.0	-22.9	-8.8	-9.5	-18.3	0.0	-17.5	-21.6	-19.0	-20.6	-21.8
Program aid	27.6	12.4	0.0	1.7	0.0	10.1	21.2	0.0	40.7	6.6	5.4	0.0	0.0
Grants	17.2	12.4	0.0	1.7	0.0	10.1	14.1	0.0	20.3	6.6	5.4	0.0	0.0
Loans	10.4	0.0	0.0	0.0	0.0	0.0	7.1	0.0	20.4	0.0	0.0	0.0	0.0
Debt relief obtained 3/	13.3	21.5	5.6	20.5	5.3	6.9	6.7	18.7	18.7	0.0	9.1	0.0	0.0
Financing gap	0.0	0.0	-2.1	0.0	0.0	0.0	8.9	-0.3	0.0	18.0	10.8	22.1	20.3
Possible HIPC assistance	0.0	0.0	0.0	0.0	0.0	0.0	8.9	0.0	0.0	18.0	10.8	22.1	20.3
Residual financing gap	0.0	0.0	-2.1	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(In percent of GDP)								
Total revenue and grants	19.5	19.3	0.0	18.3	8.8	8.2	19.6	0.0	20.0	19.4	19.3	19.5	19.5
Grants	3.5	3.4	0.0	1.7	1.2	0.9	3.6	0.0	3.5	3.1	2.6	2.4	2.4
Total revenue	16.0	15.9	0.0	16.6	7.6	7.3	16.0	0.0	16.5	16.3	16.7	17.1	17.1
Total expenditure	17.6	19.4	0.2	20.1	9.3	7.0	20.4	1.0	20.6	20.2	20.9	20.8	20.8
Of which													
Wages	4.5	4.8	...	4.7	2.3	2.3	4.6	...	4.6	4.5	4.5	4.5	4.5
Public investment	6.3	7.3	...	7.6	3.0	2.0	8.1	...	8.0	8.1	8.5	8.5	8.5
Overall balance (payment order basis, excl. grants)	-1.6	-3.5	...	-3.5	-1.7	0.3	-4.4	...	-4.1	-3.9	-4.2	-3.7	-3.7
Overall balance (payment order basis, incl. grants)	1.9	-0.1	...	-1.8	-0.5	1.2	-0.8	...	-0.6	-0.7	-1.6	-1.3	-1.3
Primary balance	-0.7	-2.6	...	-2.6	-1.2	0.6	-3.5	...	-3.2	-3.1	-3.3	-2.9	-3.0
Nominal GDP 4/	1,469.9	1,610.4	1,605.4	1,605.4	1,740.1	1,740.1	1,740.1	1,755.7	1,755.7	1,883.1	1,906.5	2,080.5	2,275.3

Sources: Beninese authorities; and staff estimates and projections.

1/ Including value-added taxes on imports.
2/ Total revenue minus total expenditure, excluding interest payments and net lending.
3/ Includes confirmed interim HIPC assistance from Paris Club, ADB/AfDB, BOAD, OPEC, World Bank, and IMF.
4/ In billions of CFA francs.

Table 6. Benin: Monetary Survey, 1999-2002

	1999	2000		2001								2002			
		Dec.		March		June		September		December		March	June	Sept.	Dec.
		Rev. Prog.	Est.	Rev. Prog.	Est.	Rev. Prog.	Est.	Rev. Prog.	Proj.	Rev. Prog.	Proj.	Projections			
	(In billions of CFA francs)														
Net foreign assets	306.3	316.3	352.1	323.8	399.9	331.3	443.3	338.8	462.2	346.3	427.5	460.5	480.6	494.5	457.5
Central Bank of West African States (BCEAO)	203.8	233.8	260.9	241.3	312.0	248.8	354.4	256.3	373.3	263.8	336.3	369.2	389.4	403.3	366.3
Banks	102.5	82.5	91.2	82.5	87.9	82.5	88.9	82.5	88.9	82.5	91.2	91.2	91.2	91.2	91.2
Net domestic assets	127.3	161.7	173.7	165.3	163.0	168.9	140.1	172.4	135.0	176.0	153.3	155.0	156.3	148.7	178.7
Domestic credit	141.0	167.6	181.7	197.3	173.0	194.3	156.3	185.0	151.2	181.9	169.5	171.2	172.5	164.9	194.9
Net claims on central government	-13.6	-16.9	-12.3	-16.4	-28.7	-13.4	-39.6	-20.5	-52.6	-28.9	-53.1	-56.4	-58.6	-64.9	-58.8
Credit to the nongovernment sector	154.6	184.5	194.0	213.6	201.7	207.6	195.9	205.5	203.8	210.8	222.6	227.6	231.1	229.8	253.7
Other items (net)	-13.8	-5.9	-8.0	-5.9	-10.0	-5.9	-16.2	-5.9	-16.2	-5.9	-16.2	-16.2	-16.2	-16.2	-16.2
Broad money (M2)	433.6	478.0	525.9	489.1	562.9	500.2	583.4	511.2	597.1	522.3	580.8	615.4	636.9	643.1	636.3
Currency	164.5	184.5	211.2	188.3	243.1	192.0	260.5	195.7	266.0	199.4	233.3	264.0	282.9	288.9	253.3
Bank deposits	263.8	288.3	308.6	295.6	313.3	303.0	315.7	310.3	323.9	317.7	340.3	343.7	346.2	346.4	375.1
Deposits with CCP 1/	5.2	5.2	6.1	5.2	6.5	5.2	7.2	5.2	7.2	5.2	7.2	7.8	7.8	7.8	7.8
	(In percentage of beginning-of-period broad money, unless otherwise indicated)														
Net foreign assets	31.4	2.3	10.6	1.6	9.1	3.1	17.3	4.7	20.9	6.3	14.3	5.7	9.1	11.5	5.2
Net domestic assets	3.6	7.9	10.7	0.7	-2.0	1.5	-6.4	2.2	-7.4	3.0	-3.9	0.3	0.5	-0.8	4.4
Domestic credit	2.2	6.1	9.4	6.2	-1.6	5.6	-4.8	3.6	-5.8	3.0	-2.3	0.3	0.5	-0.8	4.4
Net claims on government	-14.4	-0.8	0.3	0.1	-3.1	0.7	-5.2	-0.8	-7.7	-2.5	-7.8	-0.6	-0.9	-2.0	-1.0
Credit to nongovernment sector	16.6	6.9	9.1	6.1	1.5	4.8	0.4	4.4	1.9	5.5	5.4	0.9	1.5	1.2	5.4
Broad money (percentage change over beginning of period)	35.0	10.3	21.3	2.3	7.1	4.6	10.9	7.0	13.6	9.3	10.5	6.0	9.7	10.7	9.5
Velocity of broad money (GDP relative to average M2)	3.9	3.5	3.3	...	...	...	...	...	...	3.5	3.2	...	...	...	3.1
Credit to the nongovernment sector (annual change in percent)	52.7	19.3	25.5	19.3	12.7	20.5	13.7	18.8	17.8	14.3	14.7	12.8	18.0	12.8	14.0
Nominal GDP (in billions of CFA francs)	1,469.9	1,610.4	1,605.4	...	...	...	...	...	...	1,740.1	1,755.7	...	...	...	1,906.5

Sources: BCEAO; and staff estimates and projections.
1/ CCP = Comptes Cheques Postaux.

Table 7. Benin: Balance of Payments, 1999-2004

	1999	2000		2001		2002		2003	2004
		Rev. Prog.	Est.	Rev. Prog.	Proj.	Rev. Prog.	Proj.	Proj.	
	(In billions of CFA francs)								
Trade balance	-154.3	-174.0	-177.8	-179.2	-180.8	-181.9	-188.3	-202.8	-210.6
Exports, f.o.b.	137.0	146.5	130.8	161.0	154.4	175.3	165.1	175.3	195.9
Cotton and textile	114.2	118.6	107.3	130.2	120.2	141.2	127.8	134.8	152.0
Oil	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	21.9	27.9	23.5	30.8	34.1	34.1	37.3	40.5	43.9
Imports, f.o.b.	-291.2	-320.5	-308.5	-340.2	-335.2	-357.1	-353.3	-378.1	-406.4
Of which									
Petroleum products	-34.4	-56.8	-54.0	-58.6	-56.7	-54.6	-54.4	-53.2	-53.8
Services (net)	-32.2	-29.1	-31.4	-29.9	-33.5	-29.5	-33.5	-34.9	-36.8
Credit	100.3	105.3	106.8	112.4	115.0	120.9	123.7	132.9	142.4
Debit	-132.5	-134.4	-138.2	-142.4	-148.5	-150.3	-157.2	-167.7	-179.2
Income (net)	-9.6	-10.2	-12.9	-11.8	-14.8	-9.7	-16.2	-16.6	-17.3
Of which									
Interest due on government debt	-11.6	-13.9	-12.4	-14.7	-14.4	-12.8	-15.1	-15.4	-16.1
Current transfers (net)	84.9	95.1	93.9	100.8	112.7	98.9	104.0	105.1	111.7
Unrequited private transfers	45.3	54.0	59.5	57.4	59.5	61.0	63.2	67.2	71.4
Public current transfers	39.6	41.1	34.4	43.4	53.2	37.9	40.8	37.9	40.3
Of which									
Program grants	17.2	12.3	1.7	14.1	20.3	6.6	5.4	0.0	0.0
Current account	-111.1	-118.2	-128.2	-120.1	-116.4	-122.1	-134.0	-149.2	-153.0
Capital account	40.9	49.1	32.3	55.7	48.6	59.8	51.6	57.4	62.3
Official project grants	40.9	49.1	32.3	55.7	48.6	59.8	51.6	57.4	62.3
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	181.3	92.5	147.3	87.7	124.5	71.0	92.4	101.7	80.6
Medium- and long-term public capital	19.1	12.3	29.5	29.2	50.6	22.0	31.3	35.7	39.5
Disbursements	42.7	34.7	52.4	47.6	68.0	43.6	50.3	56.3	61.3
Project loans	32.3	34.7	52.4	40.5	47.6	43.6	50.3	56.3	61.3
Program loans	10.4	0.0	0.0	7.1	20.4	0.0	0.0	0.0	0.0
Amortization due	-23.6	-22.4	-22.9	-18.3	-17.5	-21.6	-19.0	-20.6	-21.8
Medium- and long-term private capital	47.5	16.6	30.0	20.0	35.0	22.7	38.0	40.0	32.3
Deposit money banks	10.2	20.0	11.3	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	16.2	43.5	62.7	38.5	39.0	26.3	23.2	26.1	8.8
Errors and omissions	88.3	0.0	13.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	111.1	23.4	51.5	14.4	56.7	-9.3	10.1	9.9	-10.2
Financing	-111.1	-23.4	-51.5	-23.3	-56.7	-8.7	-20.9	-32.0	-10.1
Change in net foreign assets (- increase)	-111.1	-30.0	-57.1	-30.0	-75.4	-8.7	-30.0	-32.0	-10.1
Of which									
Net use of Fund resources	0.6	-2.5	-2.5	0.7	-3.1	-4.2	-3.0	-6.9	-7.9
Loans	6.1	6.3	6.3	11.3	7.5	6.3	7.5	3.8	0.0
Repayments	-5.5	-8.9	-8.9	-10.6	-10.6	-10.5	-10.4	-10.7	-7.9
Change in external arrears (+ increase)	-13.3	-14.8	-14.8	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	-4.9	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-13.3	-14.8	-9.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 1/	13.3	21.4	20.5	6.7	18.7	0.0	9.1	0.0	0.0
Financing gap	0.0	0.0	0.0	8.9	0.0	18.0	10.8	22.1	20.3
Possible HIPC assistance 2/	0.0	0.0	0.0	8.9	0.0	18.0	10.8	22.1	20.3
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
	(In percent of GDP)								
Exports	9.3	9.1	8.1	9.3	8.8	9.3	8.7	8.4	8.6
Imports	19.8	19.9	19.2	19.6	19.1	19.0	18.5	18.2	17.9
Current account, including program grants	-7.6	-7.3	-8.0	-6.9	-6.6	-6.5	-7.0	-7.2	-6.7
Current account, excluding program grants	-8.7	-8.1	-8.1	-7.7	-7.8	-6.8	-7.3	-7.2	-6.7
	(Annual changes in percent)								
Volume of exports	25.1	-4.4	-11.6	-9.0	-3.1	4.0	11.2	5.1	4.1
Of which									
Cotton products	31.6	-4.1	-11.1	-11.4	-8.2	3.1	11.7	5.1	3.7
Export unit price	-22.4	5.6	8.0	20.8	21.9	4.7	-3.8	1.0	7.4
Of which									
Ginned cotton	-26.1	3.8	5.5	22.7	20.9	3.9	-5.8	-1.1	7.7
Volume of imports	9.9	4.7	0.7	5.0	5.8	6.9	6.8	7.5	7.9
Import unit price	-0.3	8.0	5.2	1.1	2.7	-1.8	-1.3	-0.4	-0.4

Sources: Beninese authorities; and staff estimates and projections.

1/ Includes confirmed interim HIPC assistance from Paris Club, African Development Bank/Fund, BOAD, OPEC, World Bank, and IMF.

2/ HIPC assistance after completion point assumed to be in January 2002.

Table 8. Benin: Balance of Payments, 1999-2004

(In millions of U.S. dollars)

	1999	2000		2001		2002		2003	2004
		Rev. Prog.	Est.	Rev. Prog.	Proj.	Rev. Prog.	Proj.	Proj.	
Trade balance	-250.9	-245.9	-252.2	-253.2	-245.3	-260.0	-258.3	-278.3	-292.1
Exports, f.o.b.	222.8	207.0	185.5	227.6	209.4	250.6	226.5	240.5	271.7
Cotton and textile	185.7	167.6	152.2	184.0	163.1	201.9	175.3	184.9	210.8
Oil	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	35.6	39.5	33.3	43.5	46.3	48.8	51.2	55.6	60.9
Imports, f.o.b.	-473.7	-452.9	-437.6	-480.8	-454.8	-510.7	-484.8	-518.7	-563.9
Of which									
Petroleum products	-56.0	-80.3	-76.6	-82.8	-77.0	-78.1	-74.6	-73.0	-74.6
Services (net)	-52.4	-41.2	-44.6	-42.3	-45.5	-42.1	-46.0	-47.9	-51.1
Credit	163.2	148.8	151.4	158.9	156.0	172.9	169.7	182.3	197.5
Debit	-215.5	-190.0	-196.0	-201.2	-201.4	-215.0	-215.7	-230.2	-248.6
Income (net)	-15.6	-14.4	-18.3	-16.6	-20.1	-13.9	-22.2	-22.7	-24.0
Of which									
Interest due on government debt	-18.9	-19.7	-17.6	-20.8	-19.6	-18.2	-20.7	-21.2	-22.4
Current transfers (net)	138.2	134.4	133.3	142.5	152.9	141.5	142.7	144.1	154.9
Unrequited private transfers	73.7	76.3	84.4	81.1	80.7	87.3	86.8	92.2	99.1
Public current transfers	64.5	58.0	48.9	61.3	72.2	54.2	55.9	51.9	55.9
Current account	-180.8	-167.1	-181.8	-169.7	-158.0	-174.6	-183.8	-204.7	-212.3
Capital account	66.6	69.4	45.8	78.6	66.0	85.6	70.8	78.7	86.4
Official project grants	66.6	69.4	45.8	78.6	66.0	85.6	70.8	78.7	86.4
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	294.9	130.7	209.0	124.0	168.9	101.5	126.8	139.6	111.8
Medium- and long-term public capital	31.1	17.4	41.8	41.3	68.6	31.4	42.9	48.9	54.8
Disbursements	69.5	49.1	74.3	67.2	92.3	62.4	69.0	77.2	85.0
Project loans	52.6	49.1	74.3	57.2	64.6	62.4	69.0	77.2	85.0
Program loans	16.9	0.0	0.0	10.0	27.7	0.0	0.0	0.0	0.0
Amortization due	-38.4	-31.6	-32.4	-25.9	-23.7	-31.0	-26.1	-28.3	-30.3
Medium- and long-term private capital	77.3	23.5	42.6	28.3	47.5	32.4	52.1	54.9	44.9
Deposit money banks	16.6	28.3	16.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	26.3	61.5	88.9	54.4	52.9	37.6	31.8	35.8	12.1
Errors and omissions	143.6	0.0	19.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	180.7	33.0	73.0	20.4	76.9	-13.4	13.9	13.6	-14.1
Financing	-180.7	-33.1	-73.0	-33.0	-77.0	-12.4	-28.6	-43.9	-14.0
Change in net foreign assets (- increase)	-180.7	-42.4	-81.0	-42.4	-102.3	-12.4	-41.2	-43.9	-14.0
Of which									
Net use of Fund resources	1.0	-3.6	-3.6	1.0	-4.2	-6.1	-4.1	-9.4	-10.9
Loans	9.9	8.9	9.0	16.0	10.2	9.0	10.2	5.2	0.0
Repayments	-8.9	-12.5	-12.6	-15.0	-14.4	-15.0	-14.3	-14.6	-10.9
Change in external arrears (+ increase)	-21.6	-21.0	-21.1	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.0	0.0	-7.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-21.6	-21.0	-14.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 1/	21.6	30.3	29.0	9.4	25.3	0.0	12.5	0.0	0.0
Financing gap	0.0	0.0	0.0	12.6	0.1	25.8	14.8	30.3	28.1
Possible HIPC assistance 2/	0.0	0.0	0.0	12.6	0.1	25.8	14.8	30.3	28.1
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Beninese authorities; and staff estimates and projections.

1/ Includes confirmed interim HIPC assistance from Paris Club, African Development Bank/Fund, BOAD, OPEC, World Bank, and IMF.

2/ HIPC assistance after completion point assumed to be in January 2002.

Table 9. Benin: External Debt and Scheduled Debt Service, 1999-2004

(In billions of CFA francs)

	1999	2000		2001		2002	2003	2004
		Rev. Prog.	Est.	Rev. prog.	Proj.	Projections		
Total debt service due	40.4	45.1	44.1	43.7	42.4	44.6	46.3	45.6
Interest	11.6	13.9	12.4	14.7	14.4	15.1	15.4	16.1
Principal	28.8	31.2	31.7	29.0	28.0	29.5	30.8	29.5
On disbursed debt at end-2000	40.4	45.1	44.1	42.5	41.5	42.5	43.0	41.1
Multilaterals (excluding IMF)	18.1	22.4	21.0	22.4	23.0	22.9	23.0	23.1
IMF	5.4	9.2	9.2	10.9	10.8	10.7	10.4	7.8
Paris Club	10.8	9.5	10.6	4.6	5.9	6.6	7.4	7.7
Other bilaterals	5.8	4.1	3.3	4.5	1.7	2.2	2.2	2.6
Short-term debt	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	11.6	13.9	12.4	13.5	13.5	13.0	12.2	11.6
Multilaterals (excluding IMF)	6.0	7.6	6.6	7.5	7.3	6.9	6.3	5.9
IMF	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.1
Paris Club	4.6	5.0	4.8	4.5	5.0	4.9	4.8	4.7
Other bilaterals	0.6	1.0	0.6	1.2	0.9	0.9	0.9	0.9
Short-term debt	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	28.8	31.2	31.7	29.0	28.0	29.5	30.8	29.5
Multilaterals (excluding IMF)	12.1	14.8	14.4	14.9	15.7	16.1	16.7	17.1
IMF	5.2	8.9	8.9	10.6	10.5	10.5	10.2	7.7
Paris Club	6.2	4.4	5.8	0.1	0.9	1.7	2.6	3.0
Other bilaterals	5.2	3.1	2.6	3.3	0.8	1.3	1.3	1.7
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service on new disbursements	0.0	0.0	0.0	1.2	1.0	2.1	3.2	4.5
Interest	0.0	0.0	0.0	1.2	1.0	2.1	3.2	4.5
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief and HIPC assistance	13.3	21.4	20.5	15.6	18.7	19.9	22.1	20.3
Interest	6.7	7.1	6.8	5.2	6.2	6.6	7.4	6.8
Principal	6.6	14.3	13.7	10.4	12.5	13.3	14.7	13.5
Repayment of arrears	13.3	14.8	14.8	0.0	0.0	0.0	0.0	0.0
Interest	6.7	4.9	4.9	0.0	0.0	0.0	0.0	0.0
Principal	6.6	9.9	9.9	0.0	0.0	0.0	0.0	0.0
Total debt service (after debt relief) 1/	40.4	38.5	38.4	28.1	23.7	24.7	24.1	25.3
Interest	11.6	11.7	10.5	9.5	8.2	8.4	8.1	9.4
Principal	28.8	26.8	27.9	18.6	15.6	16.2	16.1	16.0
Debt outstanding, before debt relief	817.1	830.1	834.4	844.8	871.0	888.3	910.1	938.3
Debt outstanding, after debt relief and excluding debt to be paid by HIPC assistance	808.2	576.3	592.9	611.2	651.8	682.4	718.9	760.6
NPV of debt after traditional relief 2/	547.6	538.1	523.3	537.2	513.4	501.9	488.2	475.7
NPV of debt after enhanced HIPC 2/	543.1	396.7	542.8	409.0	359.4	359.8	358.4	357.7

Sources: Beninese authorities; and staff estimates and projections.

1/ Excludes debts service to be financed by HIPC assistance.

2/ For 2000, the estimated NPV of debt after traditional relief is lower than the NPV of debt after enhanced HIPC because the NPV of debt after traditional relief assumes Naples stock operation at the end of 2000, while the NPV after Enhanced HIPC assumes Cologne flow operation during the interim period and Cologne stock operation only at the end of 2001.

Table 10. Benin: Fiscal Impact of the HIPC Initiative, 1999-2004

	1999	2000		2001		2002	2003	2004
		Rev. prog.	Est.	Rev. prog.	Proj.	Projections		
	(In billions of CFA francs, unless otherwise indicated)							
HIPC assistance given								
Interest due before HIPC assistance	11.6	13.9	12.4	14.7	14.4	15.1	15.4	16.1
Interest paid before HIPC assistance	11.6	13.9	12.4	14.7	14.4	15.1	15.4	16.1
HIPC relief on interest (as a result of stock-of-debt operation only)	...	0.0	0.0	0.1	0.0	0.7	0.7	0.7
Interest due after HIPC assistance	...	13.9	12.4	14.6	14.4	14.3	14.7	15.4
Amortization due before HIPC assistance	28.8	31.2	31.7	29.0	28.0	29.5	30.8	29.5
Amortization paid before HIPC assistance	28.8	31.2	31.7	29.0	28.0	29.5	30.8	29.5
HIPC relief on amortization (as a result of stock-of-debt operation only)	...	0.0	0.0	0.5	0.0	2.2	2.2	2.2
Amortization due after HIPC assistance	...	31.2	31.7	28.4	28.0	27.3	28.6	27.3
HIPC relief provided as grants (to cover debt service due)	...	5.0	4.0	15.1	18.7	17.7	19.9	18.1
Total HIPC assistance	...	6.6	5.6	15.6	18.7	19.9	22.1	20.3
Total HIPC assistance (in U.S. dollars)	...	9.4	8.0	22.3	25.7	27.3	30.7	28.1
Net cash flow to the budget from HIPC assistance	...	6.6	5.6	15.6	18.7	19.9	22.1	20.3
Memorandum items:								
Investment and program financing	90.6	86.0	76.1	106.8	126.3	96.4	102.4	112.0
Total net external flows (net external financing less debt service due)	50.2	40.8	31.9	63.2	83.9	51.9	56.1	66.4
Functional and other poverty-reducing government expenditures (country specific)	(In percent of GDP)							
Baseline pre-HIPC assistance expenditure projections	17.6	19.2	19.7	18.6	19.5	19.9	19.7	19.9
Post-HIPC assistance expenditure projections	...	19.4	20.1	20.4	20.6	20.9	20.8	20.8
Memorandum items:								
Tax revenues	16.0	15.9	16.6	16.0	16.5	16.7	17.1	17.1
Overall fiscal balance before HIPC assistance 2/	-1.6	-3.3	-3.3	-1.6	-3.1	-3.2	-2.7	-2.8
Overall fiscal balance after HIPC assistance 2/	-1.6	-3.5	-3.5	-2.6	-4.1	-4.2	-3.7	-3.7

Sources: Beninese authorities; and staff estimates and projections.

1/ On a payment order basis and excluding grants

Table 11. Benin: Indicators of Fund Credit, 1995-2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Outstanding Fund credit 1/									
In millions of SDRs	56.6	68.9	70.4	66.5	67.2	64.4	61.1	57.9	50.6
In billions of CFA francs	42.9	51.2	56.5	53.2	56.4	59.9	57.0	53.5	47.3
In percent of quota 2/	91.4	111.4	113.7	107.4	108.5	104.1	98.8	93.6	81.7
In percent of GDP	4.3	4.5	4.5	3.9	3.8	3.7	3.2	2.8	2.3
In percent of exports of goods and services	22.0	23.6	27.9	22.6	23.8	25.2	21.2	18.5	15.3
Debt service to the Fund 1/									
In millions of SDRs	1.5	1.7	3.7	4.2	6.9	9.9	11.7	11.6	11.7
In billions of CFA francs	1.1	1.3	3.0	3.4	5.4	9.2	10.9	10.7	10.4
In percent of quota 2/	2.4	2.8	6.0	6.8	11.1	15.9	18.9	18.7	18.9
In percent of GDP	0.1	0.1	0.2	0.2	0.4	0.6	0.6	0.6	0.5
In percent of exports of goods and services	0.6	0.6	1.5	1.4	2.3	3.9	4.1	3.7	3.4
In percent of debt service due	2.5	3.6	7.2	9.8	13.4	20.8	25.7	24.0	22.5

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

1/ Repurchases and charges are based on projected disbursements throughout the period of the program.
2/ 1999 quota.

Table 12. Benin: Public Expenditure for Health and Education, 1998-2001

	1998			1999			2000			2001					
	Budget	Execution	Rate of Execution 1/	Budget	Execution	Rate of Execution 1/	Budget 2/	Execution	Rate of Execution 1/	Budget	of which: HIPC assist.	Execution End-March	Rate of Execution 1/	Execution End-June	E
	(In billions of CFA francs, unless otherwise specified)														
Health	23.1	17.9	77.4	30.9	25.5	82.5	31.6	26.1	82.6	37.8	6.5	2.7	7.2	7.8	
Current outlays	12.7	11.1	87.3	14.2	13.2	93.0	16.6	11.1	67.0	20.5	2.6	1.2	5.7	4.7	
Personnel	5.4	5.1	93.8	5.9	5.0	84.7	6.8	4.5	65.9	6.8	0.0	1.1	16.0	2.3	
Nonpersonnel	7.3	6.0	82.6	8.3	8.2	98.8	9.7	6.6	67.8	13.7	2.6	0.1	0.7	2.5	
Investment program	10.4	6.8	65.3	16.7	12.3	73.7	15.0	15.0	99.8	17.3	4.0	1.5	8.9	3.1	
Domestically financed	2.2	1.3	57.9	2.6	2.1	82.3	2.1	1.3	62.8	7.3	4.0	0.0	0.0	1.0	
Financed from abroad	8.2	5.5	67.3	14.1	10.2	72.3	13.0	13.6	105.0	10.0	0.0	1.5	15.4	2.0	
Education	44.9	40.5	90.2	51.0	45.0	88.2	63.6	51.6	81.1	73.4	6.6	9.3	12.6	25.2	
Current outlays	37.2	34.8	93.5	40.2	38.3	95.3	46.5	41.3	88.8	56.1	5.1	8.6	15.4	20.3	
Personnel	26.9	25.5	94.8	28.8	27.0	93.9	31.7	26.3	82.9	33.5	0.0	6.7	20.1	14.1	
Nonpersonnel	10.3	9.3	90.2	11.4	11.3	99.1	14.8	15.0	101.7	22.6	5.1	1.9	8.4	6.2	
Investment program	7.7	5.7	74.2	10.8	6.7	61.9	17.1	10.3	60.2	17.3	1.5	0.6	3.8	4.8	
Domestically financed	1.9	1.0	53.7	2.8	1.2	42.4	6.4	2.2	34.1	8.1	1.5	0.0	0.0	2.4	
Financed from abroad	5.8	4.7	81.0	8.0	5.5	68.8	10.7	8.1	75.9	9.2	0.0	0.6	7.0	2.5	
	(In percent of GDP)														
Total expenditure 3/	5.0	4.3	...	5.6	4.8	...	5.9	4.8	...	6.3	0.7	0.7	...	1.9	
Current outlays	3.7	3.4	...	3.7	3.5	...	3.9	3.3	...	4.4	0.4	0.6	...	1.4	
Personnel	2.4	2.2	...	2.4	2.2	...	2.4	1.9	...	2.3	0.0	0.4	...	0.9	
Nonpersonnel	1.3	1.1	...	1.4	1.3	...	1.5	1.3	...	2.1	0.4	0.1	...	0.5	
Investment program	1.3	0.9	...	1.9	1.3	...	2.0	1.6	...	2.0	0.3	0.1	...	0.5	
Domestically financed	0.3	0.2	...	0.4	0.2	...	0.5	0.2	...	0.9	0.3	0.0	...	0.2	
Financed from abroad	1.0	0.8	...	1.5	1.1	...	1.5	1.4	...	1.1	0.0	0.1	...	0.3	

Sources: Beninese authorities and staff estimates.

1/ In percent.
2/ Includes social measures in supplementary budget.
3/ Total expenditure for health and education.

Table 13. Benin: Selected Demographic and Social Indicators

Indicator	Sub-Saharan Africa 1/	Latest Single Year 1970-75	1980-85	1990-95	1997 2/
		(In units indicated)			
GNP per capita (U.S. dollars)	510	220	280	350	380
Population					
Total (thousands)	612,409	3,029	4,043	5,475	5,796
Annual growth rate (in percent)	2.6	2.6	3.2	2.8	2.9
Urban population (percent of total)	32.3	21.9	30.8	41.8	40.0
Life expectancy (years)	50.8	44.5	48.0	50.2	53.0
Total fertility rate (births per woman)	5.5	7.0	7.0	6.0	5.8
Total, ages 15-64 (thousands)	320,053	1,582	2,012	2,691	2,897
Education		(Percent of school-age population)			
Primary school enrollment ratio (gross)	76.7	50.0	68.0	73.3	77.6
Male	84.1	70.0	90.0	93.2	98.1
Female	69.2	31.0	45.0	53.5	57.1
Secondary school enrollment ratio	26.5	9.0	17.0	15.7	16.9
		(In units indicated)			
Primary school pupil-to-teacher ratio	41.0	53.0	33.0	52.0	...
Adult illiteracy rate (in percent of total)					
Population ages 15 and above	41.7	85.8	78.0	68.5	66.1
Female	49.6	92.3	87.4	80.9	79.1
Health					
Infant mortality rate					
(per 1,000 live births)	91.4	151.0	117.5	94.9	88.0
Access to safe water					
(percentage of population)	46.5	34.0	14.4	72.4	50.0
Urban	73.7	83.0	45.0	82.0	41.0
Rural	31.9	20.0	9.0	69.0	53.0
Food production index					
(1989-91=100)	109.4	49.5	79.9	130.4	127.1
Child malnutrition					
(percentage of children under age 5)	28.4	...	...	24.0	29.2

Source: World Bank, *World Development Indicators*.

1/ Latest year available.
2/ 1997 data where available; otherwise 1996.

Table 14. Benin: Financial and Structural Benchmarks and Performance Criteria Under the Program for 2000-01

(In billions of CFA francs)

	2000			2001		
	End-December 1/			End-March 2/		
	Rev. Prog.	Adjusted target 3/	Estim.	Rev. Prog.	Adjusted target 3/	Estim.
Quantitative financial benchmarks						
Net bank credit to the government 3/	-16.9	-10.0	-12.3	-10.4	-14.1	-28.7
Reduction in verified government domestic payments arrears (cumulative since end-March 2000)	14.1		15.8	14.1		15.9
Nonaccumulation of new external payments arrears by the central government (cumulative since end-March 2000) 4/	0.0		0.0	0.0		0.0
New nonconcessional external debt at terms of 1 to 12 years contracted or guaranteed by the central government 5/ 6/	0.0		0.0	0.0		0.0
Short-term external debt with a maturity of less than 1 year (stock) 6/	0.0		0.0	0.0		0.0
Structural benchmarks						
Completion of the linking of the database of civil servants in the payroll unit with the ministries' records.				End-March		Implemented in Sept. 2001
Health expenditure (cumulative since end-March 2000) 7/	21.1		18.8	29.8		21.5
Education expenditure (cumulative since end-March 2000) 7/	42.3		39.9	58.5		49.2
Indicators						
Total government revenue 8/	256.0		266.2	321.9		329.4
Primary government expenditure 9/	216.6		220.7	278.4		270.5
Wage bill	77.0		74.8	96.6		93.2
Memorandum items:						
Non-project-related external assistance, excluding debt relief (cumulative since end-March 2000)	10.7		0.0	10.7		10.6
Target for spending on projects financed by HIPC Initiative (cumulative since end-September 2000)	3.5		3.5	6.2		4.0

1/ Benchmarks.

2/ Performance criteria.

3/ As stipulated in EBS/00/288, program targets were to be adjusted downward (upward) by the amount by which disbursements on non-project-related external assistance, excluding debt relief, exceed (fall short of) the amount programmed. The required correction in case of shortfall of external assistance was to be limited to CFAF 3.2 billion at the end of September 2000, CFAF 9 billion at the end of December 2000 and CFAF 12 billion at the end of March 2001 (cumulative). Program targets were to be adjusted downward by the amount by which proceeds from privatization excedd the amount programmed for restructuring expenditure. They were also to be adjusted downward by the amount of underspending on project financed by HIPC Initiative.
For end-December 2000, program targets are effectively adjusted upward by CFAF 9 billion for December 2000 and downward by CFAF 2.1 billion as budgetary grants of 10.7 CFAF billion programmed for 2000 were disbursed in January 2001, and spending on projects financed by HIPC Initiative was CFA 3.5 billion, while HIPC resources were CFA 5.6 billion. At end-March 2001, program target was ajusted upward by 0.1 billion and downward by 3.8 billion as cumulative program financing was projected at CFAF 10.7 billion, while the amount disbursed was CFAF 10.6 billion. Program target was also adjusted downward by CFA 3.8 billion as cumulative HIPC resources amounted to CFAF 6.2 billion, of which only CFAF 4 billion were spent.

4/ Excluding arrears on debt service to non-Paris Club creditors for which the authorities are making best efforts to reach agreement on terms at least comparable to those granted by the 1996 Paris Club agreement.

5/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received; it excludes loans contracted for debt rescheduling. The concessionality on the external debt is defined in the Fund's revised guidelines, approved on October 21, 1995, and is computed in compliance with the implementing guidelines of April 15, 1996.

6/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000); it excludes normal trade financing.

7/ Total expenditures.

8/ Excluding grants.

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

October 5, 2001

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

Dear Mr. Köhler:

1. The attached memorandum on economic and financial policies describes the progress made during the second half of the first-year of the program that the Fund supports under an arrangement under the Poverty Reduction and Growth Facility (PRGF). The memorandum also indicates the policies and measures planned for the rest of 2001 and for 2002. The attached technical memorandum of understanding also specifies the definitions of benchmarks and criteria presented in Table 1 of Appendix I and the reporting requirements.

2. As indicated in paragraph 4 of the memorandum, all the quantitative performance criteria for end-March were observed during the first six months of the program.

3. The government is convinced that the policies and measures set forth in the memorandum on economic and financial policies are adequate to achieve the objectives of its program. The government will provide the International Monetary Fund with information that it may request for purposes of monitoring progress in implementing its economic and financial policies. In light of the policies and measures established for the second year of the program, we request that the disbursement of the fourth loan under the PRGF arrangement, in an amount equivalent to SDR 4.04 million, be approved upon completion of the third review under the arrangement, to be completed by mid-March 2002. The review will assess economic and financial developments during 2001 and early 2002, the outlook for the rest of 2002, and the implementation of the poverty reduction strategy. It will also set the phasing and conditions of the disbursements to be made during the third year of the PRGF arrangement.

Sincerely yours,

/s/

Abdoulaye Bio-Tchané
Minister of Finance and Economy

Attachment: Memorandum on Economic and Financial Policies for 2001/02

BENIN

Memorandum on Economic and Financial Policies for 2001/02

October 5, 2001

I. Introduction

1. Discussions on the second review of the medium-term program supported by a Fund arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou during July 19-August 2, 2001 and in Washington during August 20-23, 2001. The discussions covered progress made in program implementation since September 2000, the outlook for the remainder of 2001 and for 2002, and measures planned for the next twelve months, including key elements of the 2002 budget. The government of Benin reaffirms its commitment to implement all the policies described in the present document, which supplements the memorandum on economic and financial policies prepared in June and December 2000.

II. Program Implementation, September 2000–June 2001

2. The program for 2000 and 2001 was prepared in the context of the medium-term strategy for 2000–03, which aims at achieving sustainable economic growth, reducing poverty, and maintaining financial viability by strengthening macroeconomic policies and liberalizing the economy.

3. In 2000, the economic situation was broadly in line with the program as revised during the first review in October 2000. Real GDP grew by 5.8 percent, compared with a target of 5.3 percent, mainly on account of higher-than-expected food production. Average inflation was contained at 4.2 percent, and the current account deficit, including current transfers, was equivalent to 8.0 percent of GDP in 2000, instead of the 7.3 percent projected in the program, largely because of delays in the disbursement of grants tied to the adjustment program. Nevertheless, a surplus was recorded in the overall balance of payments, enabling Benin to contribute CFAF 57.1 billion to the international reserves of the Central Bank of West African States (BCEAO).

4. The program benchmarks for end-December 2000 and the quantitative performance criteria for end-March 2001 were met. However, the civil service database maintained by the Ministry in charge of the Civil Service was merged with the payroll database in September 2001 instead of March 2001 (structural benchmark). Also, the indicators concerning expenditure on education and health at end-December 2000 and end-March 2001 were not observed, owing to problems encountered in starting some projects and in implementing a new computerized public expenditure management system.

A. Government Finance and Fiscal Reforms

5. In 2000, the overall fiscal balance, on a payment order basis and excluding grants, recorded a deficit equivalent to 3.5 percent of GDP as programmed. Including grants, the deficit amounted to 1.8 percent of GDP, instead of 0.1 percent as targeted, on account of delays in the disbursement of external grants. Given these delays, net bank credit to the government increased slightly instead of declining as planned. Total revenue reached 16.6 percent of GDP, or much better than the target of 15.9 percent of GDP set in the program, owing to a strengthening of tax collection and the implementation of a common external tariff in the West African Economic and Monetary Union (WAEMU). However, government expenditure was also higher than anticipated, reaching 20.1 percent of GDP, as spending on goods and services and investment projects accelerated toward the end of the year. The wage bill was kept below the ceiling set in the program at 4.8 percent of GDP, while outlays for education and health were only 80 percent of the budget appropriations, which included CFAF 3.5 billion in interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The government implemented its action plan to settle identified domestic arrears and reached an agreement with Italy to settle arrears on short-term debt amounting to CFAF 14.8 billion. Moreover, the government has started an audit of the utilization of HIPC resources in 2000, which is to be completed by end-2001.

6. In the first half of 2001, the fiscal situation was greatly affected by the difficulties, which were somewhat expected, encountered in implementing a new computerized expenditure management system (SIGFIP). Indeed, these difficulties slowed budget execution until April 2001 and led the Beninese Treasury to pay urgent expenses by using exceptional procedures. As a result, only 34 percent of total expenditure was executed at end-June 2001. In particular, spending for health and education was only at 30 percent of the level budgeted for the year. Nevertheless, the government has taken steps to speed up social sector spending for the rest of this year. Also, the government has decided to offset overspending on the elections, equivalent to 49 percent of the budgeted amount, by cutting nonpriority current outlays. On the revenue side, the outcome for the first six months of the year was close to the objective, with total revenue amounting to the equivalent of 7.3 percent of GDP, as a strong performance on domestic tax collection largely offset a shortfall in customs receipts. The low level of spending and the disbursement of external aid in early 2001, instead of at end-2000, led to a much greater than expected improvement in net bank credit to the government during the first six months of this year.

7. To make SIGFIP fully operational, the government has started implementing a series of actions, some of them recommended by a technical assistance mission from the International Monetary Fund. The measures include (i) enhancing user training, (ii) strengthening technical assistance to operate and expand the system, (iii) integrating foreign-financed expenditure into the system, and (iv) introducing specific budgetary lines in the 2001 supplementary budget to monitor outlays financed by HIPC Initiative resources. In addition, by end-December 2001, the government will link SIGFIP with the treasury's computer system and ensure that SIGFIP is able to monitor and provide information on the budget under the traditional format, as well as under the format of program budgets.

B. Money and Credit Developments

8. Broad money expanded by 21.3 percent in 2000, with the net foreign assets and the net domestic assets of the banking system contributing equally to the increase. In addition, credit to the economy grew by 25.5 percent during the year as banks increased lending to the cotton, trade, and industry sectors. Over the first six months of 2001, net domestic assets declined by 6.4 percent relative to the beginning-of-period money stock, mainly on account of a contraction in net bank credit to the government. Meanwhile, credit to the nongovernment sector increased by 13.7 percent in the 12 months to June 2001.

9. The financial situation of two of the five banks weakened in the second half of 2000 as a result of a rapid increase in lending and weaknesses in bank management and internal control procedures. This weakening led to a deterioration of the banks' solvency, as they were unable to observe key prudential ratios, particularly the capital adequacy ratio, at end-December 2000. At the same time, the situation of nonbank financial institutions remained weak, with two of the three small leasing companies facing serious difficulties. However, the measures taken since the second quarter of 2000 to restructure the largest cooperative bank, FECECAM, have started to bear fruit. In particular, FECECAM's management has been streamlined, and debt-collection procedures have been improved, so that the volume of outstanding nonperforming loans has fallen.

C. Structural Reforms

10. After ending the monopoly of the state cotton enterprise (SONAPRA) on the marketing of seed cotton, the government is working on gradually bringing competition into the cotton sector. In this context, the World Bank helped the Interprofessional Cotton Association to set up an autonomous agency (Centrale de Sécurisation des Paiements et des Recouvrements, or CSPR) which manages the distribution of cottonseeds to ginning mills and ensures crop credit repayments to commercial banks. As a result, the 2000/01 cotton harvest was generally satisfactory. However, the CSPR was unable to pay all producers because SONAPRA and a private ginning enterprise did not fully pay for cottonseeds.

11. Other structural reforms ground to a standstill during the months preceding the March 2001 presidential election. Little progress was made in the discussions on the privatization scheme for SONAPRA and on the government divestiture program for the telecommunications company (OPT), the water and electricity distribution company (SBEE), and the Autonomous Port of Cotonou (PAC). In particular, the National Assembly has yet to adopt the laws and regulatory frameworks that are required for the liberalization of these sectors. Similarly, the National Assembly has yet to amend the 1998 law on the compensation system for the civil service, as required by the Constitutional Court. The implementation of the decentralization policy was also delayed, as the local elections were postponed to a date to be announced.

12. The government continues to participate actively in the initiatives aimed at strengthening regional integration within the WAEMU and the Economic Community of West African States (ECOWAS). For this purpose, the government intends to bring the regulatory framework for economic activity progressively in line with the regional laws. As regards government finance, regional laws on the government chart of accounts and the budget nomenclature are being

implemented. Also, the government has submitted to the National Assembly amendments to two articles of the Constitution that are contrary to some provisions of the fundamental regional law on the budget. With respect to governance, the WAEMU code of good conduct has been published, and training for its implementation will take place as scheduled by the WAEMU. In addition, the draft common investment code of the union is under discussions among WAEMU member countries. Lastly, the government has submitted to the WAEMU Commission a multiyear economic program consistent with the union's convergence criteria. At end-2000, Benin observed all the core criteria for macroeconomic convergence, except for the one on inflation, as the union target of 3 percent was exceeded slightly.

II. Medium- and Long-Term Framework

13. Studies on Benin's long-term prospects, carried out after broad consultations with various social groups in the country, revealed that the national vision for Benin in 2025 was that of a model country, well governed, united, and at peace, with a prosperous and competitive economy, an expanding cultural influence, and improved social well-being. With this vision of the future in mind, the new government has prepared an Action Program covering the five years of the President's term of office. The main focus of this Action Program is to (i) consolidate democracy and good governance; (ii) strengthen the physical bases of the economy; (iii) improve competitiveness; (iv) stabilize the macroeconomic framework; (v) improve infrastructure and ensure balanced development; (vi) intensify the fight against poverty; (vii) take into account young people's views and the gender dimension when addressing development issues; (viii) strengthen national unity and solidarity initiatives; and (ix) promote the expansion of Benin's international influence and African integration.

14. In the context of its Action Program for 2001-06, the government is actively preparing a poverty-reduction strategy paper (PRSP), which will cover the period 2002–04. Accordingly, the first four years of the government's Action Program will be consistent with the PRSP and the medium-term expenditure framework (MTEF). In addition, as part of its efforts to strengthen fiscal management, the government, with World Bank assistance, has already started preparing program budgets in the areas of health, education, rural development, environment, and transportation sectors. The MTEF and the program budgets will be approved by the government and submitted to the National Assembly by end-October 2001.

15. Based on the findings of a national seminar on the acceleration of Benin's economic growth, held in May 2001, the government's objectives are to achieve a real GDP growth of 7 percent by 2004, while keeping inflation below 3 percent a year on average. Such an ambitious objective forcefully demonstrates the government's determination to implement as soon as possible policies and structural reforms that can contribute to a steady acceleration of growth. To ensure the sustainability of this strategy over time, the government will also gradually bring the external current account deficit to below 7 percent of GDP and reduce the burden of the external debt relative to GDP. With this objective in mind, the government will make every effort to strengthen the competitiveness of the economy, so as to enable Benin to gain a larger share of regional and international trade and increase private investment in the productive sectors.

III. Policies and Measures Planned for the Remainder of 2001 and the First Half of 2002

16. The second year of the program supported by the PRGF covers the period from July 1, 2001 to June 30, 2002. The macroeconomic framework for 2001 that was presented in the memorandum of December 26, 2000 was only slightly modified to reflect recent developments. The real GDP growth target for 2001 was revised from 5 percent to 5.8 percent to take account of the increase in food production and in secondary sector activity, while the targets for inflation (3 percent) and for the external current account deficit (6.9 percent of GDP) were kept unchanged. For 2002, the growth target was also raised, from 5.6 percent to 6 percent, to take account of higher growth projected in the secondary sector, especially in textiles, construction, and public works, as well as in the tertiary sector (mainly trade and transportation). With world petroleum product prices stabilizing and sufficient rainfall for normal growth in food production, inflation is expected to continue falling to 2½ percent in 2002. However, the external current account deficit is expected to reach 7 percent of GDP, in view of the deterioration in the terms of trade, resulting from the drop in cotton price on the world markets. Nevertheless, the overall balance of payments position should remain in surplus.

A. Fiscal Policy and Budget Reform

17. In view of the fiscal outturn at end-June 2001, the government intends to accelerate budget execution and continue to improve tax collection during the rest of 2001. As a result, the overall fiscal deficit, on a commitment basis and excluding grants, is estimated at 4.1 percent of GDP, or 0.3 percentage point below the program target. The overall balance, including grants, should record a deficit of less than 1 percent of GDP, as expected. Further improvement in tax administration will keep total revenue at 16½ percent of GDP, as in 2000, but ½ of 1 percent above the program target. To that end, the government will make every effort to collect, by end-November 2001, CFAF 2.8 billion in customs duties owed by the company distributing petroleum products, SONACOP. On the expenditure side, the government will speed up budget execution, mainly by improving SIGFIP operations. Also, transfers will be increased by CFAF 7.1 billion to take into account payments owed to WAEMU and additional interim assistance obtained in the context of the HIPC Initiative (CFAF 3.1 billion), which will be used to increase transfers to local health centers, the teaching hospital, and the university. Hence, the target for total expenditure has been slightly raised to 20.6 percent of GDP. The wage bill will be kept within budget limit, at 4.6 percent of GDP, taking into account the planned recruitments in the social sectors, as well as the government's decision to increase wages to the level corresponding to the grades on the job ladders that civil servants reached in 1996. The total of other expenditure and current transfers will be kept at their initial level, notwithstanding the overruns in the cost of the recent elections. Similarly, the authorities intend to execute the investment program fully. Investment outlays include the purchase of an airplane for the president, an issue that has been discussed with Fund staff since 1998. The government will consult Fund staff before finalizing any transaction and finance the purchase only from budget appropriations included in the Finance Law and from external resources that observe the concessionality conditions agreed in the program (loan with a grant element of at least 35 percent). Budget appropriations have been voted for this purpose since 1999, and those for 1999 and 2000 have been carried forward in accordance with the law, since they have not been

utilized. Hence, total budget appropriations for this purpose amount to CFAF 9 billion, including a grant of CFAF 3.7 billion received for such purchase in 1998.

18. The 2002 budget will reflect the government's policy and priorities as defined in its Action Program and the PRSP under preparation. The broad thrust of the budget will be (i) the preparation of program budgets and unified budgets by a number of ministries; (ii) an improvement in revenue collection; (iii) an increase in capital expenditure and operating expenditure for the social sectors and economic infrastructures; and (iv) a strengthening of capacity building to manage and use the available resources.

19. In this context, the government set the target for the overall fiscal deficit (on a payment order basis, excluding grants) at 4.2 percent of GDP in 2002, or slightly above the level envisaged under the medium-term program, in order to accommodate higher capital spending. In addition, the basic fiscal balance (excluding externally-financed investment) will record a surplus, so that Benin will continue to observe the main WAEMU convergence criteria. The overall fiscal deficit is to be financed by secured grants and external loans on concessional terms.

20. The government does not plan to introduce new tax measures in 2002 but intends to raise total revenue slightly to 16.7 percent of GDP by a further strengthening of tax administration. In particular, it will (i) continue to reinforce the department in charge of the taxation of large enterprises; (ii) interconnect the computers in the tax and customs departments; (iii) interconnect the computers of the customs department with those of the preshipment inspection enterprise; (iv) intensify customs valuation audits; and (v) computerize the monitoring of tax exemptions. In addition, the government will collect the dividends owed by SONACOP to the state for the first six months of 1999, prior to the enterprise's privatization.

21. Total expenditure is projected to rise slightly to 20.9 percent of GDP in 2002. The wage bill is to be kept stable at 4.5 percent of GDP (CFAF 85.8 billion). Before end-2001, the government will request the National Assembly to revise the law on the new compensation system, as required by the Constitutional Court, so as to implement it by early 2002. If the National Assembly fails to revise the law, the government will consult with Fund and World Bank staff on the approach it intends to pursue in order to implement the new compensation system. In addition, the government has decided to keep the size of the civil service unchanged, instead of maintaining the current practice of recruiting two civil servants for any three leaving the service. This action will contain the needs for personnel in ministries, pending the introduction of the staffing plans that will be prepared in the context of the reform of the administration. Additional teachers and health personnel will be hired at the local level and will be financed by transfers financed with some of the resources obtained in the context of the enhanced HIPC Initiative.

22. The government intends to increase in 2002 current nonwage expenditure by 5 percent for ministries in charge of education, health, social protection, agriculture, environment, transportation, water, and electricity, and by 3 percent for the others. Transfers, excluding scholarships and pensions, will be kept in 2002 at their 2001 level. Budget appropriations for public investment have been set at of 8.5 percent of GDP, or ½ percentage point higher than the level projected for 2001. The execution rate of investment is also expected to improve from

80 percent in 2001 to 90 percent in 2002. The government intends to discuss the composition of the investment program with Fund and World Bank staff once it is available.

23. The government will pursue the settlement of government liabilities stemming from the financial difficulties that Benin encountered during the 1980s. To that end, it will complete payments of private deposits left in liquidated banks (CFAF 5.2 billion) by March 2002. In addition, by end-December 2001, the authorities will make an inventory of all claims that civil servants may have made on the government as a result of the measures taken during the 1980s. If such an inventory were compiled, the government will discuss with Fund staff a financial package to settle them during the next review of the program.

24. In 2002, the government intends to reinforce measures taken in recent years to improve budget execution. To that end, it will (i) deepen the budget reforms, (ii) make SIGFIP fully operational, (iii) strengthen the financial and physical controls of outlays for infrastructure, (iv) increase the use of autonomous agencies to execute infrastructure projects, and (v) seek development partners' support to streamline loan and grant disbursement procedures. The government will also pursue its ongoing efforts to prepare economic and functional classifications of government expenditure. These classifications, together with the increased use of program budgets, would help reduce the amount of current outlays shown as capital expenditure. Also, the government intends to evaluate the system of cash advance accounts (*comptes de régisseurs*) during the first quarter of 2002, in order to increase the proportion of expenditure that is executing following the regular spending procedures. In addition, the remaining balance of those cash advance accounts will be transferred to the treasury by end-December 2001, and expenditure already committed will be cancelled, with the possibility of carrying them over to fiscal year 2002.

B. Outlook for Money, Credit, and the Financial System

25. Monetary policy, which is conducted at the regional level by the BCEAO, will be consistent in 2001-02 with the objectives of price stability and balance of payments viability. In light of anticipated trends in economic activity and financial intermediation, broad money is expected to grow by 10½ percent in 2001 and 9.5 percent in 2002. Net domestic assets are expected to decline in 2001, owing to the contraction in net bank credit to the government, which will be only partially offset by the increase in credit to the nongovernment sector. In 2002, net domestic assets should recover, as the contraction in net bank credit to the government should slow and credit to the nongovernment sector could rise by 13.9 percent. As a consequence, the net foreign assets of the banking system are expected to continue to increase during the 2001-02 period.

26. The government is determined to correct the weaknesses of Benin's financial system and strengthen the management of financial institutions. Already, as recommended by the regional banking commission, the management of two banks has been replaced, and the government intends to work with the banks' shareholders in order to increase their capital by end-2001 to the level required by the new prudential norms. By end-2001, the government will also propose a plan for the sale of the shares of the bank in which the public sector controls a majority of the capital. In addition, the government will ensure that all financial institutions observe the prudential ratios, especially those related to capital adequacy. As regards nonbank financial

institutions, the government has decided to withdraw the license of one institution and enhance surveillance over the other two, in order to have them comply with the new prudential ratios by end-2001.

27. For microfinance institutions, the government will reinforce the unit in charge of their supervision by end-2001. The unit will exercise a closer surveillance over the two major networks, FECECAM and FENACREP, and subsequently over all microfinance institutions. Based on the audit carried out by an international firm, the government will ensure, with the support of external partners, that FECECAM's restructuring proceeds as planned. Finally, the government will pursue its efforts to collect the outstanding claims of the liquidated banks.

C. Other Structural Reforms

28. The government will continue to apply the new adjustment mechanism for petroleum product prices. It will assess its functioning by end-2001 and study in particular the impact of the growing volume of sales in the informal sector, which imports petroleum products from neighboring countries. For kerosene, the government will limit the subsidy to CFAF 4 billion in 2002, as was the case in 2001. Also, the government has decided to liberalize the price of cement by end-2001.

29. Given the size of the structural financial deficit of the pension fund for the civil service (FNRB), which is currently covered by budgetary transfers, the government will carry out an actuarial study of the fund and formulate a strategy by end-June 2002 for eliminating its financial deficit over the medium term. Meanwhile, the government will establish a database of retired personnel by end-December 2001.

30. For the telecommunications company (OPT), the government will complete a financial audit of its 2000 accounts by end-December 2001. Once the National Assembly has passed the laws on the postal services and telecommunications sector, the government will adopt the decree splitting the two branches, create a new telecommunications company by November 2001, and set up the regulatory agency by February 2002. The government will request bids for the privatization of the telecommunications company by end-February 2002, and select the successful bidder by July 2002.

31. Regarding the water and electricity company (SBEE), the government will adopt a privatization strategy by September 2001, as recommended by the national seminar on the reform of the water and electricity sectors. The main feature of the strategy to be defined by December 2001 will be the separation of the water and electricity sectors. The government intends to request World Bank assistance for financing studies on the separation of the two sectors, the privatization of the resulting entities, and the revision of the legal and regulatory frameworks. The government will then (i) submit the draft law to the National Assembly by end-March 2002, (ii) set up the regulatory agency in March 2002, (iii) launch the bidding process by June 2002, and (iv) choose the winning bid by November 2002. In addition, the government will propose a plan by end-October 2001 for restoring the company's finances, which are suffering from a difficult cash-flow situation and a balance sheet weakened by an accumulation of losses over the past years.

32. The government will review, in cooperation with the World Bank, the options that an international consulting firm suggested for the privatization of SONAPRA. It will adopt a privatization strategy by December 2001 and complete the transaction by end-November 2002. In conformity with the objective of accelerating growth, the government will also withdraw from public enterprises in the textile sector and, to that end, will prepare a divestiture strategy by end-December 2001.

33. To intensify private sector involvement in the management of the Autonomous Port of Cotonou (PAC), the government will adopt one of the options that a consulting firm is supposed to recommend in the coming months. It will then define how the option will be implemented before end-June 2002.

34. To promote good governance, the government has prepared a draft national anticorruption strategy after consultation with civil society. It intends to adopt the draft strategy by end-December 2001, after discussing it further with civil society in September 2001. In addition, the authorities have adopted regulations governing relations between government agencies and the population, as well as manuals of administrative procedures for use by government departments.

IV. Monitoring of the Program

35. Program monitoring will be carried out on the basis of the accompanying Technical Memorandum of Understanding and the quarterly quantitative benchmarks, indicators, and structural benchmarks established for the period July 1, 2001-June 30, 2002, and through a midterm review. The quantitative limits for end-September 2001, end-March 2002, and end-June 2002 are benchmarks for program monitoring; those for end-December 2001 are program performance criteria, the observance of which is a condition for making the fourth disbursement under the arrangement under the PRGF. The quantitative benchmarks and the performance criteria include (i) a ceiling on net bank credit to the government; (ii) the nonaccumulation of new external payments arrears by the central government (on a continuous basis); (iii) a ceiling on new nonconcessional foreign debt with a maturity of one year or more, contracted or guaranteed by the central government; and (iv) a ceiling on new short-term foreign borrowing, with the exception of regular trade financing. The quarterly ceilings on net bank credit to the government will be adjusted downward (or upward), depending on the amount by which exceptional external assistance, excluding eventual debt relief, exceeds (or falls short of) program estimates, as indicated in the attached Table 1. The reduction of verified government domestic payments arrears has not been retained as a benchmark or a performance criterion since the government settled outstanding amounts in the first quarter of 2001, except for those still subject to legal proceedings.

36. Four measures will serve as structural benchmarks for end-December 2001: (i) submitting amendments to the law on a new pay scale and compensation system for the civil service to a vote of the National Assembly;(ii) completion of an inventory of civil servants' outstanding claims on the government; (iii) agreement between the government and Fund staff on an action plan to privatize the remaining state-controlled bank; and (iv) reconciling the end-2000 account

balances of the treasury, budget department, externally-financed public investment project, and agencies that are included in the financial operation of the central government.

Table 1. Benin: Financial and Structural Benchmarks and Performance Criteria Under the Program for 2001-02

(In billions of CFA francs, unless otherwise indicated)

	2001		2002	
	End-September 1/	End-December 2/	End-March 1/	End-June 1/
Quantitative financial benchmarks				
Net bank credit to the government 2/ 3/	-52.0	-51.0	-55.0	-57.0
Nonaccumulation of new external payments arrears by the central government (cumulative since end-September 2001) 2/ 4/	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government 2/ 5/ 6/	0.0	0.0	0.0	0.0
Short-term external debt with a maturity of less than one year (stock) 2/ 6/	0.0	0.0	0.0	0.0
Structural benchmarks				
Submission of amendments to the law on a new performance-based compensation mechanism to a vote of the National Assembly 1/		End-December 2001		
Completion of an inventory of outstanding claims of civil servants on the government 1/		End-December 2001		
Agreement with Fund staff on an action plan to privatize the remaining state-controlled bank 1/		End-December 2001		
Reconciliation of the end-2000 account balances of the Treasury, Budget department, externally-financed public investment projects, and agencies that are included in the financial operations of the central government 1/		End-December 2001		
Health expenditure (cumulative since end-June 2001) 1/ 7/	15.0	30.0	40.2	50.5
Education expenditure (cumulative since end-June 2001) 1/ 7/	24.1	48.2	68.1	87.9
Indicators (cumulative amount since end-December 2000)				
Total government revenue 8/	204.0	288.8	363.4	438.0
Primary government expenditure 9/	165.7	260.1	321.7	390.6
Wage bill	60.8	80.8	101.3	123.8
Memorandum items:				
Non-project-related external assistance, excluding debt relief (cumulative since end-June 2001)	12.8	30.6	30.6	30.6
Target for spending on projects financed by HIPC Initiative (cumulative since end-June 2001) 10/	6.2	12.5	15.5	21.4

1/ Benchmarks.

2/ Performance criteria.

3/ Program targets will be adjusted downward (upward) by the amount by which disbursements on non-project-related external assistance, excluding debt relief,exceed (fall short of) the amount programmed; the required correction in case of shortfall of external assistance will be limited to CFAF 17 billion at the end of December 2001, March 2002, and June 2002 (cumulative). Program targets will be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed. Program targets will also be adjusted downward by the amount of underspending on projects financed by HIPC Initiative.

4/ Excluding arrears on debt service to non-Paris Club creditors for which the authorities are making best efforts to reach agreement on terms at least comparable to those granted by the 1996 Paris Club agreement.

5/ This performance criterion applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received; it excludes loans contracted for debt rescheduling. The concessionality on the external debt is defined in the Fund's revised guidelines, approved on October 21, 1995,and is computed in compliance with the implementing guidelines of April 15, 1996.

6/ The term "debt" has the meaning set forth in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) , 8/24/00); it excludes normal trade financing.

7/ Total expenditures.

8/ Excluding grants.

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

10/ The amount of total expected and budgeted debt relief is CFAF 18.4 billion in 2001 and CFAF 19.9 billion in 2002. The amount already spent on projects financed by the HIPC Initiative was CFAF 2.8 billion at end-June 2001.

INTERNATIONAL MONETARY FUND

BENIN

Technical Memorandum of Understanding

(October 5, 2001)

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF). 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, the government is defined as the central government of the Republic of Benin and does not include local authorities, the central bank, or any other public entity with autonomous legal personality that is not included in the table of government financial operations (TOFE).

3. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

(a) As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender 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 payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that 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 the 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 arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under this 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 (e.g., payment on delivery) will not give rise to debt.

(b) **A loan is considered concessional** if, on the date the contract is 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 (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

II. Quantitative Performance Criteria

A. Net Bank Credit to the Government

Definition

4. Net bank credit to the government is defined as the balance between the liabilities and claims of the government vis-à-vis the central bank and commercial banks. The scope of net credit to the government is that used by the Central Bank of West African States (BCEAO) and is consistent with established Fund practice in this area. It implies a broader definition of government than that specified in paragraph 2. Claims of the government include the CFA franc cash balance, postal checking accounts, subordinated debt (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public entities (EPIC) and public enterprises, which are excluded from the calculation. Government debt to the banking system includes all debt to these same financial institutions.

5. At end-June 2001, net bank credit to the government as defined above stood at CFAF -39.6 billion.

6. The ceilings on the net credit to the government vis-à-vis the banking system will be adjusted downward (upward) by the amount by which disbursements on budgetary assistance exceed (fall short of) the amount programmed; the required correction in case of shortfall of budgetary assistance will be limited to CFAF 17 billion at end-December 2001, end-March 2002 and end-June 2002. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the HIPC Initiative). In the context of the program, cumulative (since end-June 2001) external budgetary assistance is expected to reach CFAF 30.6 billion at end-December 2001, and to stay at that level at end-March 2002 and end-June 2002.

7. The ceiling on net bank credit to the government will be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed for restructuring

expenditure. In the context of the program, cumulative restructuring expenditure (since end-June 2001) is expected to reach CFAF 5 billion at end-December 2001, CFAF 10.6 billion at end-March 2002, and CFAF 10.6 billion at end-June 2002.

8. The ceiling on net bank credit to the government will also be adjusted downward by the amount of underspending on projects financed by HIPC Initiative resources. Targets for cumulative spending on projects financed by the HIPC Initiative (since end-June 2001) are CFAF 12.5 billion at end-December 2001, CFAF 15.5 billion at end-March 2002, and CFAF 21.4 billion at end-June 2002.

Performance criteria and benchmarks

9. The ceiling on net credit to the government is established as follows: CFAF -51.0 billion as at December 31, 2001, CFAF –55.0 billion as at March 31, 2002, and CFAF –57.0 billion as at June 30, 2002. The ceiling is a performance criterion as at end-December 2001 and a benchmark as at end-March 2002 and at end-June 2002.

Reporting deadline

10. Provisional data on net credit to the government, including a detailed list of the bank account balances of other public entities, will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

B. Nonaccumulation of External Public Payments Arrears

Definition

11. External payments arrears are defined as the sum of (i) external payments due, (ii) unpaid-for external liabilities of the government, and (iii) foreign debt held or guaranteed by the government. The definition of external debt provided in paragraph 3(a) applies here.

Performance criterion

12. Under the program, the government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The performance criterion on the nonaccumulation of external payments arrears will be monitored on a continuous basis throughout the program period.

C. Ceiling on Nonconcessional External Debt with a Maturity of One Year or More Newly Contracted or Guaranteed by the Government

Definition

13. This performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00) but also to commitments contracted or guaranteed (including lease-purchase agreement) for which no

value has yet been received. The definition of external debt excludes bonds issued in the regional market and disbursements under the PRGF arrangement.

14. The concept of "government" for the purposes of this performance criterion includes government as defined in paragraph 2, public institutions of an administrative nature (EPA), public institutions of a scientific and/or technical nature, public institutions of a professional nature, public institutions of an industrial and/or commercial nature (EPIC), and local governments.

Performance criterion

15. Nonconcessional external borrowing will be zero throughout 2001/02 (July-June).

Reporting deadline

16. Information on any borrowing (including terms of loans and creditors) contracted or guaranteed by the government shall be transmitted each month within four weeks following the end of the month.

D. Ceiling on Short-Term External Debt Newly Contracted or Guaranteed by the Government

Definition

17. The definitions in paragraphs 13 and 14 also apply to this performance criterion.

18. Short-term external debt is debt with a contractual term of less than one year. Import-related loans and debt relief operations are excluded from this performance criterion.

Performance criterion

19. In the context of the program, the government and public enterprises will not contract, guarantee, or secure short-term nonconcessional external debt.

20. As of June 30, 2001, the government of Benin has no short-term external debt.

III. Quantitative Benchmarks

21. The quantitative benchmarks for the program comprise quarterly minimum spending targets for health and education. This includes both current capital and expenditures, including foreign-financed investments. The floor for health expenditure is on an accumulated basis (since end-June 2001) CFAF 30.0 billion for end-December 2001; CFAF 40.2 billion for end-March 2002; and CFAF 50.5 billion for end-June 2002. The floor for education expenditure is on an accumulated basis (since end-June 2001) CFAF 48.2 billion for end-December 2001; CFAF 68.1 billion for end-March 2002; and CFAF 87.9 billion for end-June 2002.

IV. Quantitative Indicators

22. The program also includes indicators on total government revenues, the primary government expenditure, and the civil service wage bill.

A. Floor for Total Government Revenues

Definition

23. Government revenues are defined as those that appear in the government financial operations table (TOFE).

Indicators

24. Quantitative performance indicators for total government revenues are set at CFAF 288.8 billion at end-December 2001; CFAF 363.4 billion at end-March 2002; and CFAF 438.0 at end-June 2002 (cumulative since end-December 2000).

Reporting deadline

25. The government shall report its revenues to IMF staff each month in the context of the TOFE.

B. Floor for Primary Government Expenditure

Definition

26. Primary government expenditure is defined as total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

Indicators

27. The floors for the performance indicators for primary government expenditure are set at CFAF 260.1 billion at end-December 2001; CFAF 321.7 billion at end-March 2002; and CFAF 390.6 billion at end-June 2002 (cumulative since end-December 2000).

Reporting deadline

28. The authorities will report monthly to IMF staff, in the context of the TOFE, provisional data on primary government expenditure. These data will be taken from the balances of treasury accounts for the items that are used to calculate this balance. The final data will be provided as soon as the final balances for these accounts are available, but not later than four weeks after the reporting of the provisional data.

C. Ceiling on the Wage Bill

Definition

29. The **wage bill** includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security

forces, and includes all similar expenditure with respect to special contracts and other permanent or temporary employment with the government. The wage bill excludes, however, wages paid under externally funded projects and transfers to local communities for the payment of salaries of teachers and health personnel.

Indicators

30. The quantitative performance indicators for the wage bill are set at CFAF 80.8 billion at end-December 2001; CFAF 101.3 billion at end-March 2002; and CFAF 123.8 billion at end-June 2002 (cumulative since end-December 2000).

Reporting deadline

31. The government shall report the wage bill to IMF staff each month in the context of the TOFE.

V. Structural Benchmarks

A. Submission of Amendments to the Law on a New Performance-Based Compensation Mechanism to a Vote of the National Assembly

32. By December 31, 2001 at the latest, the government will submit amendments to the law on a new performance-based compensation mechanism that were required by the Constitutional Court to be voted on by the National Assembly.

B. Completion of an Inventory of Outstanding Claims of Civil Servants on the Government

33. By December 31, 2001, the government will complete an inventory of outstanding claims of civil servants on the government.

C. Agreement with Fund Staff on an Action Plan to Privatize the Remaining State-Controlled Bank

34. By December 31, 2001, the government will agree with Fund staff on an action plan to privatize the remaining state-controlled.

D. Reconciliation of end-2000 Accounts Balances for the Treasury, Budget Department, Externally-Financed Public Investment Projects, and Agencies that are Included in the Financial Operations of the Central Government

35. By December 31, 2001, the government will reconcile the end-2000 account balances of the treasury, budget department, externally-financed public investment projects, and agencies that are included in the financial operations of the central government.

VI. Other Data Requirements for Program Monitoring

A. Public Finance

35. Required public finance is as follows:

- detailed monthly revenue and expenditure estimates, including social expenditures, payments on arrears, and HIPC Initiative-related expenditure;
- monthly data on domestic financing (bank and nonbank) of the budget (including government bonds held by the nonbank public), which will be transmitted on a monthly basis within four weeks of the end of each month;
- data on the implementation of the development budget, with detailed information on the sources of financing, which will be transmitted on a quarterly basis within 12 weeks of the end of each quarter; and
- public sector external and domestic scheduled debt service and payments, and relief obtained under the HIPC Initiative (these data will be transmitted on a monthly basis within six weeks of the end of each month).

B. Monetary Sector

36. The following data will be transmitted on a monthly basis or, as specified below, within eight weeks of the end of the month:

- the consolidated balance sheets of deposit money banks, and the individual bank balance sheet as needed;
- the monetary survey;
- lending and deposit rates; and
- standard bank supervision indicators for banks and nonbank financial institutions, respectively, and for individual institutions as needed.

C. External Sector

37. External sector data requirements are as follows:

- export and import data, including volumes and prices, will be transmitted on a quarterly basis within 12 weeks of the end of each quarter; and
- other balance of payments data, including the data on services, private transfers, official transfers, and capital account transactions, will be transmitted on a quarterly basis within 12 weeks of the end of each quarter.

D. Real Sector

38. The following requirements will apply to real sector data:

- Monthly disaggregated consumer price indices will be transmitted on a monthly basis within two weeks of the end of each month.

- Any revisions to the national accounts data will be transmitted within eight weeks of the date of revision.

E. Structural Reforms and Other Data Requirements

39. Documentation of all measures undertaken by the government will be transmitted to the IMF's African Department within ten working days after the day of implementation. Any official studies pertaining to the economy of Benin, will be submitted within two weeks of publication.

Benin: Relations with the Fund

As of September 30, 2001

I. **Membership Status**: Joined July 10, 1963; Article VIII June 1, 1996

II. **General Resources Account**:	SDR million	%Quota
Quota	61.90	100.0
Fund holdings of currency	59.72	96.5
Reserve position in Fund	2.19	3.5

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	9.41	100.0
Holdings	0.07	0.7

IV. **Outstanding Purchases and Loans**:	SDR million	%Quota
ESAF arrangements	58.90	95.2

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	07/17/2000	07/16/2003	27.00	10.84
ESAF/PRGF	08/28/1996	07/16/2000	27.18	16.31
ESAF	01/25/1993	05/21/1996	51.89	51.89

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	09/30/2001	2001	2002	2003	2004	2005
Principal		1.8	11.3	11.4	8.5	6.0
Charges/interest		0.2	0.5	0.4	0.4	0.4
Total		2.0	11.8	11.8	8.9	6.4

VII. **Implementation of HIPC Initiative**:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	07/17/00
Assistance committed (end-1998 NPV terms) 1/	
Total assistance (US$ million)	265
Of which: Fund assistance (SDR million)	18.4
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	7.4
Interim assistance	7.4
Completion point	0.0
Amount applied against member's obligations (cumulative)	4.9

1/ NPV terms at the decision point under the enhanced framework.

VIII. **Safeguards Assessments**:

Under the Fund's safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Benin is a member, is subject to a full Stage One safeguards assessment. A Stage One safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in BCEAO's financial reporting framework, but did not draw conclusions on the bank's internal audit mechanism nor the internal controls structure. The assessment recommended an on-site fact-finding mission, which is scheduled for October 2001.

IX. **Exchange Arrangements**:

Benin is a member of the West African Monetary Union (WAMU). The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of EUR 1 = CFAF 655.957. On July 31, 2001 the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 943.09.

X. Article IV Consultation:

Benin is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Cotonou during October 5-19, 2000. The staff report was discussed by the Executive Board on January 10, 2001.

XI. ROSC Assessment:

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be urgently taken to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin is scheduled to be presented to the Board at the same time as the 2001 Article IV consultation with Benin.

XII. Technical Assistance:

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Resident expert	September 1989-September 1994	Advising Minister of Finance on tax reform
FAD	Resident expert	November 1990-November 1992	Advising Minister of Finance on budgetary procedures
STA	Technical assistance	February 4-17, 1998	Formulating a strategy to improve improve the statistical organization and management of the Central Bank of West African States (BCEAO)
FAD	Technical assistance	September 7-22, 1998	Advising Minister of on tax administration
STA	Technical assistance	April 17-28, 2000	Devising new questionnaires for balance of payments statistics and reactivating the banking settlements reporting system

FAD	Technical assistance	April 25-May 5, 2000	Advising Minister of Finance on tax administration
STA	Technical assistance	May 7-11, 2000	Improving the data collection, compilation, and dissemination of monetary and financial statistics
FAD	Technical assistance	May 16-29, 2001	Preparation of a fiscal transparency module of a ROSC and assessment of capacity to monitor and control HIPC resources

XIII. **Resident Representative**:

Mr. Randriamaholy has been the Resident Representative since August 10, 1999.

Benin: Relations with the World Bank Group

(As of August 2001)

1. Since becoming a member of the World Bank Group in 1963, Benin has benefited from 56 IDA credits amounting to US$923.7 million, of which US$844.4 million has been disbursed. IDA credits have financed projects in agriculture (cotton and food crops), health, transport, water supply, power, education, and private enterprise development. In addition, Benin has received three technical assistance credits, providing support to the private sector, as well as to the agriculture and education sectors.

2. Benin has also benefited from three structural adjustment credits. The third structural adjustment credit (SAL III) of US$40 million equivalent was presented to the Board of Directors in May 1995, and its first tranche of US$20 million was disbursed in February 1996. This operation provided support for deepening structural reforms and implementing accompanying measures that permitted Benin to benefit from an increase in competitiveness following the CFA franc external parity realignment. It also aimed at promoting the supply response to these measures by removing remaining structural rigidities in the incentives framework, in order to expand private sector activities. The credit was closed in January 1999.

3. IDA's medium-term strategy focuses on strengthening budget management, supporting further liberalization of the cotton sector, and supporting the government in the preparation of a comprehensive poverty reduction strategy. To strengthen the government's capacity to carry out its own development and poverty reduction programs, the Bank strategy lays the groundwork for moving gradually away from traditional adjustment lending, coupled with project lending toward consolidated programmatic lending.

4. A public expenditure reform adjustment credit (PERAC) was approved on March 22, 2001. This credit became effective in September 2001. For 2001-02, the following projects are under preparation: cotton sector reform credit, multi-sectoral HIV/AIDS credit, and a poverty reduction support credit (PRSC).

Benin: Relations with the World Bank Group

(In millions of U.S. dollars, as of August 15, 2001) 1/

	Effectiveness Date	Original Principal 2/ (IDA)	Disbursed (IDA)
Fully disbursed loans and credits	...	746.4	746.4
All disbursing credits	...	177.3	98.0
Education development	10/2/95	18.1	13.0
Environmental management project	6/28/96	8.0	5.4
Population and health	7/17/96	27.8	20.6
Transport sector	3/6/97	40.0	30.5
Borgou pilot	3/18/99	4.0	2.8
Social fund	4/12/99	16.7	9.4
Decentralization city management I	3/28/00	25.5	5.7
Private sector	8/31/00	30.4	9.3
Distance learning project	11/22/00	1.8	0.9
Labor force development project	3/13/01	5.0	0.4
Grand total for all credits	...	923.7	844.4

Source: IBRD and IDA, " Summary Statement of Loans and Credits."

1/ Credits denominated in SDRs are shown in U.S. dollar equivalents basedon the monthly exchange rate in effect at the time of negotiations.

2/ Original amounts net of any cancellations.

Benin: Statistical Issues

(As of September 2001)

1. The Beninese authorities have generally provided the core statistical indicators to the Fund (see attached table). However, there are weaknesses in the areas of national accounts, public finance, monetary statistics, and balance of payments.

Real sector

2. In July 1998, Benin expressed its interest in participating in the General Data Dissemination System (GDDS) and a country coordinator has been named. Beninese national statistics agencies were represented at two GDDS seminars, one in Yaoundé in October 1998 and another in Bamako in April 2001. Significant initiatives are expected in order to implement concretely the system in Benin following the GDDS workshop in Bamako.

3. Beginning in January 1998, Benin has been using a new consumer price index (CPI) to comply with the standard of the West African Economic and Monetary Union (WAEMU) countries. To take into account the impact of the devaluation of the CFA franc on the structure of private consumption and to better reflect the noticeable shift in the consumption pattern from imported goods to domestic goods, an updated survey of the CPI weights is being undertaken by INSAE, with technical assistance provided by the French Institute of Statistics (INSEE). However, there are no official periodic statistics on an index of industrial production.

Public finances

4. Monthly government finance statistics are compiled by the Ministry of Finance, based on information provided by the budget, customs, tax, and treasury directorates; these data are available with a one- to three-month lag. The Ministry of Finance prepares a monthly table reconciling data on spending commitments by the budget directorate and payments by the treasury. However, no final budget or treasury accounts are published at the end of the fiscal year. Benin does not report monthly data for publication in *International Financial Statistics (IFS)* or annual data for publication in the *Government Finance Statistics Yearbook (GFSY)*.

Monetary accounts

5. Issues in monetary statistics are dealt with by the Central Bank of West African States (BCEAO). There has been improvement in the timeliness of reporting monetary data for publication in *IFS*. The authorities are now reporting monetary data to STA on a regular basis, with a significant reduction in the lag from about six months to two-three months.

6. The BCEAO has experienced difficulties in estimating currency in circulation for the individual countries, partly because of delays in processing cash in its vaults. Currency notes held in the vault are subtracted from currency in circulation, even though the former contains a high proportion of notes from other WAEMU countries. As notes are sorted out, currency in circulation and Benin's contribution to foreign assets of the BCEAO are revised upward. A

money and banking statistics mission visited BCEAO in August 1997 and made recommendations that would contribute to reducing the delay. Hence, during 1999, the BCEAO accelerated the sorting out of currency notes, which resulted in a sharp increase in both currency in circulation and the central bank's foreign assets.

A monetary and financial statistics mission visited the BCEAO headquarters in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed the outstanding methodological issues that concern the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *Monetary and Financial Statistics Manual* and discussed the modalities for introducing an *IFS* area-wide page for the WAEMU zone in early 2002.

Balance of payments

7. The BCEAO is responsible for compiling and disseminating the balance of payments statement and has made significant improvements over the past few years in order to enhance data consistency. Technical assistance provided to the BCEAO by STA in balance of payments statistics (Statistical Advisor from July 1996 through July 1999) contributed to the reporting of balance of payment data in the framework of the *Balance of Payments Manual* (fifth edition) for 1996, 1997, and 1998.

8. Regarding trade data, the customs computer system (SYDONIA[15]) was upgraded in 1999, and its installation in all main border customs houses is being completed; this should allow a better monitoring of import data and should improve the coverage of informal trade, especially with Nigeria.

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

10. Concerning the financial account, the foreign assets of the private nonbanking sector are still poorly covered, especially assets of WAEMU residents, which are obtained through Bank for International Settlements (BIS) data. The organization of annual, exhaustive surveys for the reporting of foreign direct investment transactions in Benin is still in a very preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources aimed at improving the quality of the balance of payment reports: the regional stock exchange transactions and the firms' balance sheet database (*Centrale des bilans*).

11. The follow-up mission to the BCEAO (April 17–28, 2000) highlighted improvements in released data: early in 2000, Benin adopted a balance of payments final statement for 1998 and is due to disseminate the 1999 one before the end of 2000. However the mission pointed out

---

[15] The software SYDONIA, sponsored by the United Nations Conference on Trade and Development (UNCTAD) and by donor countries, has already been implemented in many countries. Freely available to customs administration, it is provided together with appropriate staff-training schemes.

serious shortages in the human and technical resources devoted to implement the resident advisor's recommendations.

Benin: Core Statistical Indicators
as of September 20, 2001

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	Current	07/01	05/01	05/01	05/01	08/01	04/01	10/00	10/00	10/00	2000	1999
Date received	Current	08/01	08/01	08/01	08/01	09/01	05/01	10/00	10/00	05/01	10/00	10/00
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Quarterly	Annually	Annually
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Quarterly	Annually	Annually
Source of Update 1/	EIS/TRE	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Finance	Ministry of Planning	BCEAO	Ministry of Finance	Ministry of Finance	CAA
Mode of reporting	Staff	e-mail	Staff e-mail	e-mail	e-mail	e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	No	No	2/	2/	2/	2/	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	Annually

1/ EIS: Economic Information System; TRE: Treasurer's Department; BCEAO: Central Bank of West African States; and CAA: Autonomous Amortization Fund.

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/109
FOR IMMEDIATE RELEASE
November 5, 2001

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

IMF Completes Review Under Benin PRGF Arrangement and Approves US$5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review under Benin's Poverty Reduction and Growth Facility (PRGF)[1] arrangement, and also reviewed the second year program supported under the arrangement. As a result, Benin will be able to draw up to SDR 4.04 million (about US$5 million) under the arrangement immediately.

Benin's three-year arrangement under the PRGF was approved on July 17, 2000 (see Press Release 00/43), for SDR 27 million (about US$35 million). So far, Benin has drawn SDR 10.84 million (about US$14 million) under the arrangement.

[1] On November 22, 1999, the IMF's facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. Following the preparation of an interim PRSP in June 2000, work on the full PRSP is underway. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½ grace period on principal payments.

After the Executive Board's discussion on Benin, Ms. Anne Krueger, First Deputy Managing Director, and Acting Chairman, stated:

"Benin's authorities are to be commended for the satisfactory macroeconomic performance achieved under the first-year program supported by the Poverty Reduction and Growth Facility (PRGF). Real GDP growth remained robust and well above the population growth rate, inflation continued to be moderate, and fiscal performance remained strong. All quantitative performance criteria were observed, and the structural benchmark on the creation of a unified database for the civil service was implemented. However, there were delays in implementation of other important structural measures.

"The outlook for 2001 and 2002 remains favorable. Nevertheless, particularly in view of the uncertainties in the global economic environment and the uncertain outlook for cotton prices in world markets, it is important that the government maintain a stable macroeconomic environment. In this context, the fiscal stance remains appropriate in 2001 and in the preliminary budget for 2002. To improve the efficiency of the economy and accelerate economic growth, the authorities are encouraged to resume and accelerate the implementation of structural reforms, improve the level and quality of government expenditure, and broaden the economic base by opening all productive sectors to domestic and foreign private investment. In this regard a streamlining of the legal and regulatory framework would be essential. The adoption of the regional banking commission's key recommendations, aimed at strengthening the financial sector, is welcome. Decisive implementation will be required in order to preserve the health of the banking system. The deterioration of the financial condition of SONAPRA calls for rapid progress towards its privatization. Furthermore, it is essential that the authorities resolve problems encountered in the expenditure management system and pursue reforms aimed at strengthening the preparation, execution, monitoring, and evaluation of public spending. The authorities need also to move ahead in implementing the new civil service compensation system in order to reduce pressures on salaries and thereby strengthen the country's long-term fiscal viability and competitiveness.

"The authorities have made progress in the preparation of a full poverty reduction strategy paper (PRSP), with broad participation of the civil society. However, much work remains to be done, including the setting of sectoral objectives and policies and the identification and costing of priorities. In addition, the authorities need to solve the remaining methodological issues in poverty diagnosis in order to have a solid basis for the identification of indicators and a mechanism to monitor poverty," Ms. Krueger said.