November 2004
IMF Country Report No. 04/368

Benin: 2004 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Benin

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Benin, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 18, 2004 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 September 3, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of October 6, 2004 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 6, 2004 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Benin.

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

Ex Post Assessment of Performance Under Fund-Supported Program
Selected Issues Paper

The policy of publication of staff reports and other documents 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 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Benin

Approved by Saul Lizondo and Anthony Boote

September 3, 2004

- Discussions for the 2004 Article IV consultation and the ex post assessment of Benin's performance under Fund supported programs were held in Cotonou during June 7-18, 2004. The staff met with the President, the Minister of State in Charge of Planning, the Minister of Finance and Economy, the National Director of the Central Bank of West African States (BCEAO), and other senior officials, as well as representatives of the private sector and the donor community.

- The staff team comprised Mr. Ewenczyk (head), Mr. Harmsen (Resident Representative), Mr. Nsengiyumva, Mr. Yulek, Ms. Babihuga (all AFR), and Ms. Kebet (Assistant, AFR). The mission worked closely with World Bank staff.

- In concluding the last Article IV consultation on July 15, 2002, Directors noted the sound macroeconomic performance achieved, but emphasized the importance of accelerating the pace of structural reforms to increase the potential growth of the economy and reduce poverty.

- The last three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) expired in March 2004, with the full amount drawn. The country finalized its Poverty Reduction Strategy Paper (PRSP) in early 2003 and reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in March 2003. It has accepted the obligation of Article VIII, sections 2, 3, and 4, and maintains an exchange system free of restrictions subject to approval under Article VIII.

- Benin has had three successive ESAF/PRGF arrangements since 1993. An ex post assessment is being issued as a background paper to this report.

Contents Page

Appendices

EXECUTIVE SUMMARY

Over 2001-03 macroeconomic performance was broadly satisfactory. Real GDP grew strongly, on average by 5.3 percent a year; inflation was low; and the fiscal stance remained appropriate. Banking system financial indicators remained solid. However, structural reforms incurred significant delays, especially regarding the divestiture program, and external competitiveness deteriorated.

Economic activity this year has been adversely affected by a poor cotton crop and the tightening of import restrictions by Nigeria. As a result, real GDP growth is now projected at 3 percent in 2004, the external current account deficit is expected to widen by ½ percentage points of GDP, and tax revenue would be lower than previously anticipated. Discussions focused on remedial actions to address the causes and consequences of the weakness in economic activity this year, and the policies needed to achieve the authorities' medium-term objectives. There was broad agreement on the following policy agenda:

- **To address the recent problems, the authorities decided to take strong actions** in the fiscal area to compensate for the shortfall in revenue, and in the cotton sector to prevent the recurrence of disturbances during the 2004/05 crop season; also, they are pursuing discussions with the Nigerian authorities on trade issues.

- **In view of the weak performance since the beginning of 2004 and the risk of sustained import restrictions by Nigeria, the authorities have revised downward their path for economic growth.** Their objective is now to raise real GDP growth gradually to the 7 percent target set in the PRSP.

- **Over the medium term, fiscal policy will seek to support the authorities' poverty reduction strategy, while keeping the overall deficit in line with the objective of debt sustainability.** Revenue mobilization will be strengthened through the enhancement of tax and customs administration. On the expenditure side, efforts will be made to better reflect PRSP priorities in budgetary allocations, while keeping total outlays stable in terms of GDP.

- **The authorities will seek to speed up the implementation of the structural reform agenda so as to reach their medium-term objectives**. This agenda focuses on strengthening the cotton sector reform, advancing the implementation of the divestiture program, and introducing a new civil service reform. In parallel, private sector activities will be promoted by forcefully fighting corruption and strengthening the legal and judiciary system.

The authorities as well as the representatives of the private sector and the donor community in Benin concurred with the thrust of the ex post assessment (EPA). They stressed that a further PRGF arrangement would help Benin in addressing the challenges in the Fund's core areas of responsibility and facilitate the mobilization of donors' assistance.

I. INTRODUCTION

1. The last Article IV consultation was concluded on July 15, 2002. On that occasion, Directors noted the sound macroeconomic performance achieved, but they observed that progress on the structural front had been uneven, and emphasized the importance of accelerating the pace of structural reforms in order to increase the potential growth of the economy and reduce poverty.[1]

2. The three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) approved in July 2000 for an amount of SDR 27 million ended in March 2004 with the full amount drawn. Benin's outstanding use of Fund resources amounted to SDR 46.9 million (75.8 percent of quota) at end-May 2004. Benin finalized its PRSP in early 2003 and reached the completion point under the enhanced HIPC Initiative in March 2003.

3. **On the political front**, President Kérékou was elected for a second term in March 2001, and the parties supporting him obtained a large majority in the legislative elections in March 2003. The next presidential elections are scheduled to take place in 2006.

II. RECENT ECONOMIC PERFORMANCE

4. **Economic performance was broadly satisfactory over the last three years (2001–03),** although Benin's external competitiveness deteriorated during the period. Real GDP grew steadily and inflation was low (Figures 1 and 2). The external current account deficit was in line with program targets—except in 2002, when the deficit increased owing to the unexpected drop in the world price for cotton. The real effective exchange rate appreciated since end-2000, owing mainly to the recent decline of the U.S. dollar against the euro, to which the CFA franc

Benin: Selected Economic Indicators, 1995-2003
(Annual percentage changes; unless otherwise indicated)

	Annual average	
	1995-2000	2001-03
GDP at constant prices	5.2	5.3
Consumer price index (average)	5.6	2.6
Investment	18.1	18.4
Public	6.8	7.1
Private	11.3	11.3
Real effective exchange rate (+ appreciation)	0.8	4.2
External current account balance (in percent of GDP)	-6.6	-8.1
Debt-to-GDP ratio	58.3 1/	35.8 2/

1/ At end-2000 (after the decision point of the Enhanced HIPC Initiative)
2/ At end-2003 (after the completion point of the Enhanced HIPC Initiative)

---

[1] The authorities' actions in response to the recommendations of the Executive Directors are included in the overview of the ex post assessment of Benin's performance under Fund-supported programs (Box 6).

is pegged; at end-2003, Benin had preserved about 25 percent of the external competitive gains from the devaluation of the CFA franc in 1994 (Figure 3).[2]

5. **Despite these achievements, the economy has remained vulnerable to external shocks, and there has not been significant progress in poverty reduction,** according to the PRSP presented in 2003.[3] Its progress toward achieving the Millennium Development Goals (MDGs) has been generally slow, especially in the areas of women's education, sanitation, and child and maternal health (Table 14); and the rural population has not benefited from the overall slight decrease in the incidence of income poverty (MDG goal 1). Furthermore, Benin's economy has remained highly dependent on cotton production and exports to Nigeria, which together account for more than two-thirds of exports of goods and nonfactor services.

6. **While the budget deficit was contained in recent years, the composition of spending remained a problem.** Benin complied with five of the six primary convergence criteria of the West African Economic and Monetary Union (WAEMU) and made progress towards meeting the secondary criteria (Table 7). **Revenue collection strengthened**, mostly reflecting improvements in tax administration; but **weaknesses in customs administration**—particularly regarding customs valuation and the fight against fraud—have remained a major concern. Total outlays were broadly on track; however, **spending for health and education as well as government investment remained below targets,** while other expenditure exceeded budgetary targets. The latter reflected unplanned wage and salary increases to civil servants in both 2002 and 2003, subsidies to cotton producers in the context of a weak world price in 2002, and election-related overruns in 2003. In parallel, some efforts were made to strengthen public expenditure management, putting in place an integrated computerized expenditure management system (SIGFIP) and a

Benin: Central Government Operations, 2000-03
(In percent of GDP)

	2000	2001	2002	2003
Total revenue	16.6	16.2	16.9	17.0
Total expenditure	20.1	20.3	20.4	21.6
Current expenditure	12.4	12.5	13.8	13.9
o/w: Wages	4.7	4.6	4.8	5.1
Capital expenditure and net lending	7.7	7.8	6.6	7.1
Overall fiscal deficit (payment order basis, excl. grants)	-3.5	-4.2	-3.5	-4.6
Excluding HIPC financed expenditures	-3.3	-3.2	-2.5	-3.7
Domestic financing	0.9	-2.8	0.6	-0.2
External financing (including debt relief)	4.6	6.9	4.0	4.1
o/w:				
Grants	1.7	2.6	1.1	2.0
Loan disbursements	3.1	4.3	2.9	2.2
Memo item:				
Health and education expenditures	4.8	6.2	5.1	5.7

[2] Half of the competitive gains were lost by end-1995, owing to the initial surge in prices in 1994–95 that followed the parity change. The real effective exchange rate remained roughly stable during 1996–2000, as inflation was brought under control.

[3] The reasons for this limited progress in reducing poverty are unclear, as methodological weaknesses in the PRSP have precluded a full analysis of this issue, as indicated in the Joint Staff Assessment (JSA) of February 24, 2003. However, the authorities have begun to work on improving the analysis of the determinants of poverty.

mechanism for tracking poverty-reducing expenditure. However, some important weaknesses remained in the areas of internal controls, treasury accounting, and public procurement, as was reported by the Fund technical assistance mission that visited Cotonou at end-August 2003. Regarding public external debt, in 2003, the authorities established a debt committee to monitor Benin's external debt situation, review proposals for new external loans, and make recommendations on alternative financing sources.[4] Benin's external debt-to-GDP ratio declined from an average of 55 percent in 2000-02 to about 36 percent in 2003, owing in particular to debt relief after reaching the completion point under the enhanced HIPC Initiative in March 2003.

7. **Domestic credit expanded rapidly in 2002-03, driven by credit to the private sector**. Consequently, the Central Bank of West African States BCEAO, which conducts the regional monetary policy, increased the reserve requirement of the banks in Benin in February 2004 (from 9 to 13 percent).[5]

8. **The financial health of the banking sector remained broadly sound** (Appendix I). Banks' profitability improved substantially in recent years and their compliance with prudential ratios was broadly satisfactory, except for concentration risk.

9. **Progress in structural reforms continued to be slow**. The civil service reform, designed with the support of the World Bank in 1998, stalled due to strong opposition from trade unions and the parliament. In the meantime, to prevent an expansion in public sector employment, the government has applied since early 2003 a recruitment policy based on fixed-term contracts to replace retiring civil servants. Also, the implementation of the divestiture program for the public utilities and the Port of Cotonou did not progress significantly. In the cotton sector, the current framework defining the relationship among the various stakeholders—input importers and distributors, farmers, and ginners—has been under stress, with an adverse impact on the 2003/2004 crop season.[6] At present, a private

---

[4] Government domestic debt has remained very low (about 0.8 percent of GDP at end-2003).

[5] The measured level of currency in circulation in Benin has shown some erratic swings, probably due to errors in estimating how much of the currency issued to Benin is in the vaults of the BCEAO. The BCEAO takes a long time in sorting out its currency holdings across countries of issuance; the BCEAO intends to allocate additional resources to shorten this lag.

[6] Under a reform process supported by the World Bank, Benin's cotton sector has moved from an integrated state monopoly in the late 1980s to one with substantial private participation (See the section on *The Cotton Sector Reform in Benin* in the "Selected Issues and Statistical Appendix"). But the reform is unfinished; in particular, the allocation of seed cotton to ginners is decided administratively on the basis of installed capacity, as a way of ensuring a minimum level of activity in each ginning company (as there is excess ginning capacity in the system).

institution (CSPR), representing the interests of all the stakeholders, is in charge of selling the farmers' output, collecting payments from ginners, using part of the proceeds to pay back input credit (that farmers received from input importers and distributors), and paying the remainder to farmers. Recently, a significant share of transactions started to take place outside this "regular" system.[7] This generated financial problems for the CSPR—as it continued to be responsible for paying back all input credits but could not collect from some of the farmers—which delayed the start of the crop season. The negative impact on output arising from this delay was reportedly compounded by low yields resulting from low-quality inputs purchased outside the regular system. Also in the cotton sector, the process of privatizing the public ginning company (SONAPRA), a key element of the structural reform strategy, resumed in December 2003, but was not completed by mid-June 2004 as scheduled.

10. Together with the other countries of the WAEMU, **Benin maintained a liberal trade and payments system**. The common external tariff (CET), which was implemented in 2000, has established four rates (0, 5, 10, and 20 percent) while dismantling internal tariff barriers within the WAEMU area. Nontariff barriers were eliminated at the same time (Box 1).

III. Discussions with the Authorities

A. Overview

11. **The discussions took place in a context of a slowdown in GDP growth and a shortfall in tax revenues that resulted from an intensification of import restrictions from Nigeria and a poor cotton crop**—despite high export prices. Cotton production was about 17 percent lower than anticipated, owing to the poor functioning of the new private institutions overseeing the payment of seed cotton and inputs, as mentioned above. Also, Nigeria increased import restrictions and strengthened customs controls in late 2003 (Box 2). As a result of these developments, real GDP growth in 2004 is now projected at 3 percent. Also, government revenue was 17 percent lower than expected for the first quarter of 2004.[8] Inflation remained subdued (the consumer price index increased by 0.8 percent in the first half of 2004).

---

[7] In "irregular" sales of seed cotton, farmers avoid the deduction that the CSPR would make to pay back their input credits, and ginners get to use some of their excess capacity. Regarding "irregular" sale of inputs, input distributors were reportedly dissatisfied with the bidding system used to allocate import orders.

[8] The revenue shortfall was almost entirely recorded at customs, reflecting the impact of import restrictions by Nigeria. Those restrictions led to a marked drop in Benin's imports of goods destined to be reexported to Nigeria, which are subject to tariffs in the higher brackets.

Box 1. Benin: Trade Policy

- **Benin's trade policy is largely determined by its membership in WAEMU, and the country has maintained a liberal trade and payments system**. The WAEMU common external tariff (CET), composed of four rates (0, 5, 10, and 20 percent), was introduced in 2000, and at that time internal tariff barriers within the WAEMU area were dismantled. Benin has also taken the necessary steps to comply with the regional nomenclature. The simple average tariff rate is 14.6 percent, lower than the average for sub-Saharan African countries (17.6 percent). All the rates applied are ad valorem. Overall, Benin's trade restrictiveness is rated 2 out of 10 (1 being the least restrictive) by the Fund, and it does not have any formal nontariff barriers.
- Non-WAEMU members of the Economic Community of West African States (ECOWAS) have agreed to give preferential treatment for the same products as those in WAEMU, and to liberalize intraregional trade starting on January 1, 2004.1/
- Customs procedures remain burdensome, and the implementation of the CET was associated with continued fraud and corruption, including undervaluation of imports. Actions have been taken recently to apply transaction values to all imports, and fight smuggling in accordance with IMF technical assistance recommendations. However, corruption and the lack of control over exemptions remain major concerns.
- Most of the external trade goes through the Port of Cotonou, which has been poorly managed for a long time. The situation has reportedly started to improve, following the introduction of an action plan and the appointment of a new director in early 2004.
- Benin, together with Burkina Faso, Mali, and Chad, cosponsored the "Sectoral Initiative in Favor of Cotton" in the current round of the World Trade Organization (WTO) multilateral negotiations. The initiative calls for the phasing out of support for cotton production, with a view to its total elimination, and financial compensation for cotton producing least developed countries (LDCs) to offset their loss of revenue in the meantime. In July 2004, the WTO General Council agreed on an agricultural framework for further negotiations within which this initiative will receive specific attention.
- Benin has preferential access to the USA market (through the U.S. Generalized System of Preferences) and to European Union (through the Cotonou Convention, and Everything-but-Arms Initiative). Benin has already received a visa for clothing exports to the U.S. in early 2004, in the context of the African Growth and Opportunity Act (AGOA). Prospects for a rapid increase in clothing exports appear to be limited in the near future, because the domestic textile industry is small and lacks competitiveness; however, the authorities have initiated discussions at the regional level to examine how to develop a competitive clothing industry.

1/ ECOWAS consists of Cape Verde, The Gambia, Ghana, Guinea, Liberia, Mauritania, Nigeria, and Sierra Leone, in addition to the WAEMU states.

Box 2. Benin: Exports to Nigeria

In addition to formal bilateral trade and reexport activities, there are sizable informal trade flows between Benin and Nigeria. Total exports from Benin to Nigeria include:

- Formal exports, which are small (less than 1 percent of GDP);
- Formal reexports (goods destined for Nigeria imported through the Port of Cotonou), which are significant in magnitude (equivalent to 7½ percent of GDP in 2002-03), generate about 2.5 percent of Benin's total tax revenues;[1]
- Informal reexports, which comprise goods imported for the domestic market and subsequently informally reexported to Nigeria by Nigerian and Beninese traders. The main factor driving this trade is Nigeria's restrictive and volatile trade policies.[2] While hard data on informal exports to Nigeria are lacking, rough estimates suggest that they could amount to about 6 percent of GDP and generate about one-third of customs revenues.

Recent Developments

At the end of 2003, Nigeria introduced an import prohibition list comprising 44 items; these measures were intended to protect domestic industries and the activity of Nigerian ports, and to address sanitary concerns regarding frozen meat imported through Benin.[3] At the same time, the border controls were considerably strengthened. This has resulted in a significant drop in port traffic since the beginning of 2004 (a 20 percent decline during January–April 2004, compared to the same period in 2003), mostly affecting textiles, poultry, and manufactured goods destined to reexport to Nigeria.

Since June 2004, Benin has engaged in formal negotiations with Nigeria to have the import prohibition removed. The current status of agreement is that the prohibition list will stay in effect for products originally imported to Benin but not for those locally produced.

1/ A number of major consumption goods are taxed at a total rate of 14.62 percent. All other products are taxed at a rate of 6.05 percent under the ordinary transit regime.
2/ Nigeria's average tariff rate is 37.2 percent against 14.6 percent for Benin, and it has a Fund trade restrictiveness index of 8 in a scale 1-10 (10 representing the most restrictive) against 2 for Benin.
3/ The list mainly encompasses agricultural products and beverages and a number of manufactured products including textiles, bicycles, and furniture.

12. **In the circumstances, discussions focused on remedial actions to address the causes and consequences of the weakness in economic activity this year, and the policies needed to achieve the authorities' medium-term objectives.** In line with the PRSP, these objectives are to set the economy on the path to stronger growth, with a view to reducing poverty and achieving the MDGs, while consolidating the gains made over the last years in restoring macroeconomic stability.

13. **There was a broad agreement on the policy agenda**. To address the recent problems, the authorities decided to take action in the fiscal area to compensate for the shortfall in government revenue, and in the cotton sector to prevent the recurrence of the disturbances during the 2004/05 crop season; in parallel, the authorities pursued discussions with the Nigerian authorities on trade issues. To achieve the medium-term objectives, the authorities concurred with the critical need to (i) enhance revenue mobilization, improve the execution of poverty-reducing outlays, and further strengthen expenditure management; (ii) give a new impetus to the implementation of the reform agenda; and (iii) improve the business environment for private sector.

Benin: Key Macroeconomic Objectives of the PRSP, 2004-07
(In percent of GDP, unless otherwise indicated)

	2004		2005	2006	2007
	Initial proj.1/	New proj.		Proj	
GDP at constant price 2/	6.0	3.0	5.0	6.0	6.5
Consumer price index 2/	2.6	2.6	3.0	3.0	2.5
Investment	19.3	17.6	18.5	18.8	19.2
Public	8.3	7.4	7.5	7.4	7.6
Private	11.0	10.2	11.0	11.4	11.6
Government revenue	17.0	15.8	16.0	16.2	16.6
Government expenditure	21.7	21.3	21.2	21.2	21.3
Overall fiscal deficit, excluding grants	-4.7	-5.5	-5.2	-5.0	-4.7
External current account balance (- deficit)	-7.1	-9.3	-9.1	-8.8	-8.3
Debt-to-GDP ratio (after debt relief)	37.2	33.3	33.3	32.6	31.8

1/ As indicated in Country Report 04/118.
2/ Annual change in percent.

14. **The authorities recognized that the weak economic activity since the beginning of 2004 and the risks of sustained import restrictions by Nigeria warranted a moderate downward revision in the PRSP path for economic growth.** Their objective is now to raise real GDP growth gradually, from a lower base in 2004 (3 percent, against 6 percent in the original PRSP) toward the 7 percent growth target set in the PRSP, through a rebound in cotton production, improved overall economic efficiency (Box 3), and an increase in investment.[9] Inflation would remain at about 3 percent (the regional target), while the external current account deficit would narrow to 8 percent of GDP after initially widening in 2004 because of the lower-than-expected export of cotton and reexports to Nigeria. The staff stressed that reaching these objectives would require the continuation of prudent fiscal and monetary policies as well as an acceleration of structural reforms.

B. Fiscal Policy

15. **To compensate for the shortfall in government revenue in 2004, the authorities decided to take strong fiscal actions.** They plan to strengthen tax administration and cut total spending by 1.4 percent of GDP while protecting, to the extent possible, priority

[9] The mission concurred with the authorities that while the projected level of public investment was appropriate, there was a need for a steady increase in private sector investment, which stagnated in recent years.

spending.[10] These measures, if implemented rapidly and forcefully, would permit to limit the overall fiscal deficit to 5½ percent of GDP in 2004.[11] The mission stressed, however, that further measures might be needed to contain the deficit at the revised level if revenue weaknesses persisted in the coming months.

Box 3. Benin: Sources of Economic Growth

A growth accounting exercise indicates that the improvement in Benin's growth performance since the mid-1990s was mainly driven by a higher contribution from capital accumulation, and a switch to a positive contribution from total factor productivity (TFP), reflecting an improved environment for private sector investment, an increase in public investment sustained by inflows of external assistance and progress in liberalizing the economy (see the section on Sources of Economic Growth in Benin in the "Selected Issues and Statistical Appendix"). Achieving the PRSP growth target of at least 7 percent in the medium term will require increasing investment and raising the average growth rate of total factor productivity through an improved business environment for domestic and external private sector investment, and accelerated implementation of the structural reform agenda.

Sub-Saharan Africa: Sources of Real GDP growth

	Real GDP Growth	Contribution from 1/		
		Physical capital	Labor	Total factor productivity
Benin				
1980-88	2.1	1.7	1.3	-0.8
1989-93	2.5	0.9	1.5	0.0
1994-2003	5.1	2.3	1.7	1.0
All CFA countries 2/				
1981-90	2.4	1.2	1.5	-0.3
1991-2000	3.5	1.3	1.6	0.6
Non-CFA countries 2/				
1981-90	2.8	1.7	1.7	-0.5
1991-2000	1.7	1.4	1.6	-1.2

1/ In percentage points

2/ Tahari, Amor, Ghura, Dhaneshwar, Akitoby Bernardin, and Aka, Emmanuel Brou, "Sources of Growth in Sub-Saharan Africa," Unpublished draft IMF Working Paper

16. **Over the medium term, fiscal policy will seek to support the authorities' poverty reduction strategy while maintaining debt sustainability.** On the revenue side, the emphasis will be on combating tax evasion, collecting tax arrears, and continuing to simplify procedures, in line with recent Fund technical assistance recommendations to strengthen the tax and customs administrations. At customs, special attention would be paid to controlling exemptions, applying the WTO valuation rules to all imports, and fighting smuggling, fraud,

[10] The authorities indicated that they were not contemplating anymore the adoption of a supplementary budget to provide expenditure for the junior Pan-African soccer games, which Benin will host in 2005, and that they intended to limit the budget outlay for this project to the existing budgetary allocation.

[11] To monitor the fiscal situation, the authorities updated their quarterly indicative targets for 2004 (Table 15).

and corruption. The implementation of these measures should allow revenues to come back gradually to the level of 17 percent of GDP reached in 2002-03.

17. **On the expenditure side, the authorities will seek to reflect PRSP priorities in budgetary allocations, while keeping total outlays stable in terms of GDP.** To increase the execution of priority poverty-reducing expenditures, annual budgets will be underpinned by the Medium-Term Expenditure Framework (MTEF) being updated with the support of the World Bank. The wage bill would be kept at 5 percent of GDP by containing wage increases, and the growth in nonpriority spending would be curbed, notably by strengthening the measures to limit wasteful spending on public utilities. In this respect, the reforms underway in public expenditure management will be completed in order to improve the monitoring of budget execution, and enhance transparency and the tracking of poverty-reducing public outlays, in line with the recent Fund technical assistance recommendations.[12]

18. **The authorities were confident that the financing of the resulting deficit would continue to be covered by grants and highly concessional loans in order to preserve debt sustainability**. Such financing from donors is critical to support the implementation of the poverty reduction strategy. The fiscal deficit (excluding grants) is envisaged to decline gradually from 5½ percent of GDP in 2004 to 4.7 percent of GDP in 2007. The authorities indicated that existing commitments by major donors in the form of grants and highly concessional loans covered about 85 percent of the projected financing gap for 2005. The mission stressed that the mobilization of the required financing will necessitate continued progress in the implementation of the PRSP to satisfy donors' conditionality.

19. **The authorities concurred with the staff that achieving the revised medium-term fiscal objectives will require continued efforts on several fronts**. In particular, the authorities will need to resist pressures to grant unplanned wage increases or incur extrabudgetary expenditures, and improve the monitoring and evaluation of priority expenditure. The authorities also agreed that there is a need to strengthen the capacity of the local governments in budget management so that the transfer of fiscal competencies envisaged in the coming years does not weaken expenditure control. The authorities reiterated that—if undertaken—the large projects (port and airport) envisaged under the five-year Government Action Program for the period 2001-06 would be effected under BOT (build-operate-transfer) contracts with private companies. In addition, they indicated that—before deciding whether to proceed with these projects—they would conduct an assessment of their macroeconomic and fiscal impact, and would discuss the results with the IMF and World Bank staffs.

---

[12] The reforms include a limitation of exceptional procedures for budgetary expenditure and the integration of all commitments generated by public procurement contracts into SIGFIP.

C. Structural Reforms

20. **The authorities recognized that a new impetus in the implementation of the structural reform agenda was needed to reach their medium-term objectives.** While in the past the pace of reform suffered from lack of political consensus and insufficient coordination within the government, the current government's majority in parliament offers an opportunity to move forward with pending reforms. The main elements of the agenda are the cotton sector reform, the divestiture program, and the civil service reform.

21. **To avoid the recurrence of the disturbances experienced in the 2003/04 cotton crop campaign, the authorities plan to strengthen the institutions in charge of seed cotton and input commercialization**, on the basis of measures devised with the support of the World Bank. These include immediate actions to prevent the re-emergence of a parallel circuit for input provision and sale of seed cotton, as well as the establishment, before the start of the 2004/05 harvest season, of a regulatory framework defining the role and responsibilities of the government and the stakeholders.[13] The mission recognized that the implementation of these measures would help ensure a better functioning of the current framework during the forthcoming cotton campaign. At the same time, however, the mission encouraged the authorities to plan the next steps of the reform in order to have a successful transition from the current administrative allocation of seed cotton to a system based on competition among ginners. In doing so, the authorities would benefit from the results of the poverty and social impact analysis (PSIA) of the cotton sector reforms, undertaken with the support of the World Bank, which is scheduled to be completed by end-2004.

22. **The authorities reiterated their commitment to pursue the divestiture program, and the mission stressed the need to establish a credible agenda accordingly.** The agenda for public utilities is still lacking—except for the electricity company, which benefits from the assistance of the World Bank. The privatization process for SONAPRA was not completed by mid-June as scheduled. The authorities explained that the delay regarding SONAPRA was needed to ensure transparency, but they were confident the process would be completed in the coming weeks. The authorities also explained that they had started implementing a plan to improve the management of the Port of Cotonou to make it more efficient and competitive. The mission encouraged the authorities to rapidly reach a consensus, among the government and with the unions, on a new agenda for the involvement

[13] The authorities have agreed with input distributors on their individual zones of operations, so that the distribution of inputs could start without further delays. They also launched a study on the improvement of the bidding process for inputs with a view to establishing the new process by year-end with the support of the World Bank and the French Cooperation. The new regulatory framework would also establish sanctions against those operating outside the normal procedures. Clearly, incentives for "irregular" transactions in seed cotton would be reduced by allocating seed cotton through competition among ginners (rather than administratively) and by enforcing the payment of input credit by farmers.

of the private sector in the management of the Port of Cotonou. It also stressed the importance of improving the regulatory framework of the telecommunications sector to facilitate the privatization of the telecommunications company; and the need to strengthen the divestiture procedures and the privatization unit to ensure timeliness and transparency, as recommended by the World Bank.

23. **The authorities are preparing a new administrative and civil service management reform** with the assistance of the World Bank. This reform would include: (i) a revised performance-based promotion and remuneration system to improve the quality and efficiency of public services; and (ii) moderate salary increases. Ongoing discussions with the unions bode well for achieving a consensus on the reform, but the government recently suffered a setback in establishing the needed legal framework.[14] The staff encouraged the authorities to refrain from granting further wage increases before the implementation of the new compensation and promotion system. It also stressed the need to rapidly formulate a strategy regarding the medium-and long-term financial viability of the civil service pension fund (FNRB) and, as a first step, to complete the actuarial study for the FNRB.

24. **The authorities also intend to improve the business environment** through a forceful implementation of the strategy to fight corruption adopted in 2002 and the strengthening of the legal and judiciary system, which is supported by the World Bank and other donors (Box 4). In parallel, they plan to carry out a diagnostic study of impediments to private sector development, as a basis for a strategy to be adopted and implemented in close collaboration with the private sector. The authorities concurred with the mission on the need to address the lack of land titling—which limits access to credit—and they intended to request technical assistance from the World Bank to that effect.

D. Monetary Policy and Financial Sector Issues

25. **The staff agreed with the authorities that WAEMU's monetary policy arrangement has served Benin well**. It has helped to maintain confidence in the currency and keep inflation low. Regional monetary policy will continue to aim at preserving the parity of the CFA franc vis-à-vis the euro by maintaining an adequate level of foreign reserves. In that context, Benin is expected to contribute again positively to the buildup of foreign assets of the BCEAO, as the increase in credit to the private sector is contained and the government pursues a prudent fiscal policy.

26. **The staff recommended that the BCEAO use open market operations as the main instrument of monetary policy and abandon the system of differential reserve**

[14] In April 2004, the Supreme Court rejected the draft law establishing a single statute for government employees covering both civil servants and contractual employees, a prerequisite for implementing the reform. The authorities are considering their next steps.

Box 4. Benin: Governance and Business Environment

According to available international assessments, Benin's governance and business environment indicators are broadly at par with sub-Saharan African averages, but still far below best performers in the region. In the area of governance, Benin's performance is strong regarding political stability and voice and accountability.

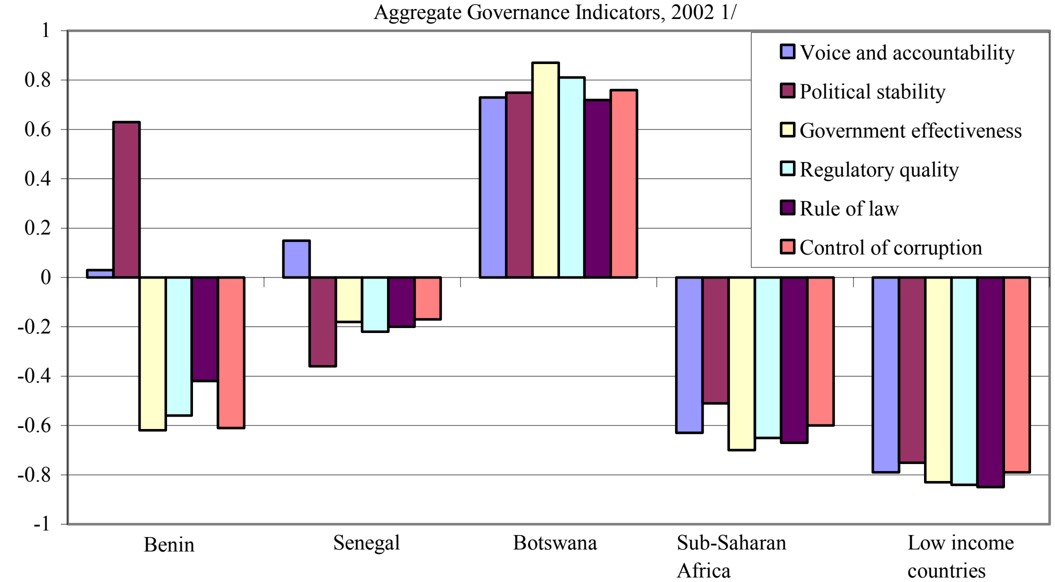
Benin: Comparative Investment Climate Indicators, 2003

	Benin	Senegal	Botswana	Sub-Saharan Africa	Low-Income Countries
Creditor rights index (0: weak; 4 :strong)	1	1	3	2	2
Investor credit risk (0:highest; 100: lowest)	20.2	29.2	62.2	17.5	17.9
Euro money country risk (0:highest; 100: lowest)	30.9	39.6	47.6	28.7	30.1
S&P rating	B+	B+	...	...	...
Coface rating	B	B	A2	...	...

Source: World Development Report, 2004; and www.cofacerating.fr.

To fight corruption, the government adopted a national strategy in July 2002. In this framework, detailed procurement reports that include all calls for tender, tender evaluation reports, and tender awards have been regularly published since the beginning of 2003. Benin's first Governance and Corruption Survey is underway and expected to be completed by the end of the year. To strengthen the legal and judicial sector, an ambitious ten-year program was adopted in 2001. A first implementation plan, covering the period 2005–07, has been prepared and will be reflected in the three-year program-budget under preparation.

Aggregate Governance Indicators, 2002 1/



Source: http://info.worldbank.org/governance/kkz2002/
1/ A lower standardized score means worse performance.

requirements by country in favor of a unified system.[15] However, the authorities stressed that the monetary policy had to be tailored to the liquidity situation of each country as long as the region's financial markets were not integrated, and that the reserve requirement as defined by the BCEAO permitted to control undue expansion of short-term credit and transfer of funds abroad.[16]

27. **The mission concurred with the authorities that Benin's financial sector was generally sound, while pointing to areas where additional efforts were warranted**. In particular, the authorities recognized they should aim at further improving compliance with prudential ratios, fostering the supervision of microfinance institutions, and deepening financial intermediation, including through the strengthening of the legal and judicial system (Appendix 1).[17] The authorities explained that the bidding process for the divestiture of the government's shares in Continental Bank—the only remaining bank with government participation—was unsuccessful; there were no bidders, reportedly because the sale of minority shares was not attractive to investors. The authorities are planning to relaunch the bidding soon, selling the government's shares jointly with those of the BOAD (West African Development Bank), which together amount to 52 percent of total shares.

E. Poverty Reduction Strategy

28. **The authorities indicated that their poverty reduction strategy, in accordance with the PRSP, envisaged reaching a higher and sustained growth rate, while reinforcing macroeconomic stability, improving the efficiency and transparency of public spending, and making the economy less vulnerable to external shocks**. The staff concurred with the authorities that achieving these objectives would require: (i) accelerating the implementation of structural reforms, as they are key to raising productivity and improving public service delivery; (ii) encouraging private investment in order to foster economic growth and diversification, in particular through improved governance and judiciary system; and (iii) increasing the level and quality of government outlays, while curbing nonpriority expenditures.

29. **The authorities recognized that reaching the MDGs by 2015 will, however, remain a significant challenge, particularly in the areas where progress has been slow. To this end, the authorities intend to strengthen their policies designed to improve the delivery, quality, and coverage of basic services**. These include access to safe water in

---

[15] These recommendations were also made recently during the discussions with the WAEMU regional institutions (Country Report 03/70).

[16] The definition of the base to which the reserve is applied includes short-term credit and gross assets held outside WAEMU.

[17] See the section on *The Microfinance Sector in Benin* in the "Selected Issues and Statistical Appendix".

rural areas, basic health and education services, and agricultural services. Sectoral programs in these areas will be designed to take account of the complementarity and the potential synergy among them. The World Bank─in the framework of the Poverty Reduction Support Credit (PRSC)─and other donors have indicated their commitment to provide assistance in these areas. The staff stressed that implementing the structural reform agenda was critical to reduce poverty, as these reforms were crucial for improving farmers' revenue from cotton and service delivery for public utilities.

30. **The authorities have made progress in addressing the shortcomings of the PRSP identified in the joint staff assessment (JSA).** To improve the poverty diagnosis, a national household survey on living conditions has been conducted, and a PSIA of cotton sector reforms is being prepared with the assistance of the World Bank. Also, the mechanism for monitoring and evaluating the PRSP implementation is being strengthened, with the support of bilateral donors.

31. **In parallel, the authorities are assessing progress in implementing the poverty reduction strategy presented in the PRSP and evaluating the execution of poverty-reducing outlays.** In light of this assessment, the authorities will revise the targets and policies presented in the PRSP, which they will present in the first annual progress report of the implementation of the PRSP, scheduled to be finalized during the last quarter of 2004. The progress report would take into account the adverse impact of the weaker-than-expected economic activity and government expenditure cuts in 2004.

F. External Sector and Debt Sustainability

32. **The staff stressed that, even assuming strong policy implementation, Benin will remain highly vulnerable to external shocks in the short and medium term.** These shocks include, in particular, a drop in the price of cotton (which remains volatile), and unfavorable changes in Nigerian trade policy. Also, a further appreciation of the euro vis-à-vis the U.S. dollar would worsen the competitiveness of Benin's external sector.[18]

33. **To reduce the vulnerability of Benin's economy to external shocks, the authorities plan to promote export diversification, while maintaining a liberal trade and exchange system.** Although cotton exports remain the main cash crop, export diversification has made some progress in recent years, as the share of noncotton products in total exports of goods—mainly cashew nuts, wood products, and staple agricultural products—has increased from a low level of 16 percent in average during 1994-99 to 29 percent in average during 2000-03. The authorities reiterated the PRSP's objective of creating an enabling environment for a competitive industrial sector focused on agro-industry, particularly for local processing of cotton fiber into textile. They concurred with the staff that responding to the challenge of

[18] In 2003, Benin's main export markets were Asian developing countries (67 percent of total exports), African countries (14 percent), and the European Union (10 percent).

export diversification will require the acceleration of structural reforms and the promotion of a dynamic private sector.

34. **Regarding trade policy**, the authorities have taken the necessary steps to comply with the regional directives on the implementation of the common external tariff. Benin benefits from the import duty exemptions arising from the Cotonou Convention in its trade with the European Union, and is eligible for the benefits of AGOA in its trade with the United States. However, the authorities are concerned by the rising cotton subsidies in industrial countries and, jointly with other West African countries, they launched the Sectoral Initiative on Cotton calling for their elimination in the context of the current round of WTO multilateral negotiations, as this would significantly boost Benin's exports and help reduce poverty. In July 2004, the WTO General Council agreed on an agricultural framework for further negotiations within which this initiative will receive specific attention.

35. **The authorities indicated that an acceleration of structural reforms would help strengthen external competitiveness**, which had deteriorated in recent years owing to the real exchange rate appreciation and the so far slow pace of reforms that would enhance the efficiency of the export sector.[19] In particular, the divestiture of public utilities, private sector management of the Port of Cotonou, streamlining the regulatory framework, and strengthening the judicial system could all help to reduce the costs of doing business and enhance efficiency. In addition, progress in civil service reform could help maintain wage restraint. The staff pointed out that a further strengthening of the euro—to which the CFA franc is pegged—may pose risks for the economy, and stressed that this prospect heightened the need for a careful monitoring of a range of competitiveness indicators.

36. **The DSA update confirms that, based on the policies underlying the medium-term scenario, Benin's external debt would remain on a sustainable path.** The baseline scenario, which reflects the authorities' revised macroeconomic framework for 2004-07 and conservative macroeconomic assumptions beyond 2007,[20] leads to the same conclusion as the

[19] The analysis of Benin's external competitiveness, conducted in the "Selected Issues and Statistical Appendix" report, gives some preliminary indication that the real appreciation of the exchange rate since 2000 would have brought it above its underlying equilibrium value. The impact of the appreciation of the exchange rate on external trade has, however, been limited, because of the heavy weight of trade with the euro zone, exports of manufactured goods remain marginal, and the world price for cotton improved considerably starting in 2002 (the volume of cotton exports—and its share in the world market has remained stable since the mid-1990s).

[20] Exports of goods and nonfactor services are projected to remain weak during 2004-07, reaching an average of 13.7 percent of GDP, compared with an average of about 15 percent of GDP anticipated at completion point, and an historical average of about 16 percent over the last ten years. They are assumed to reach an average of about 14.5 percent of GDP during 2008-21 (1 percentage point below the level projected at completion point).

completion point document that the NPV of debt-to-exports ratio would remain below the 150 percent threshold from 2005 onward (Table 8). The debt service is also projected to be sustainable, with a debt service-to-exports ratio hovering around 6.5 percent in 2004-23.

37. **At the same time, however, the sensitivity analysis highlights a clear potential for major shocks (reflecting external shocks or domestic policy slippages) to push the debt toward unsustainable levels**. The implications of three major risks facing Benin were examined, namely: (i) a drop in exports, reflecting external shocks; (ii) a lax fiscal policy, resulting in higher expenditure than in the baseline scenario; and (iii) less favorable terms on new borrowings, reflecting difficulties in mobilizing concessional financial support. In each of the three alternative scenarios, the NPV of debt-to-exports ratio would remain above the 150 percent threshold during a protracted period (Table 9 and Figure 4).

38. **In light of these results, the authorities concurred with the staff on the importance of enhancing export diversification, containing public sector deficit, and improving debt management in order to achieve and maintain external debt sustainability.** In this respect, the authorities indicated that the monitoring of external debt will be strengthened through the debt committee established in 2003 so as to avoid the recurrence of larger-than-anticipated new borrowing, as experienced in 2000–02.[21] In parallel, they were pursuing efforts to obtain debt relief from all non-Paris Club creditors under the enhanced HIPC Initiative (Box 5).

G. Statistical Issues and Technical Assistance

39. **Benin's statistical database is fairly comprehensive but needs strengthening** in the areas of national accounts, balance of payments, public finance, monetary statistics, and social indicators (Appendix III). The deficiencies do not hamper, however, the ability of the Fund staff to conduct effective surveillance of economic policies. Benin participates in the Fund's General Data Dissemination System (GDDS), and in consultation with the Fund staff, has set out plans for the improvement of its statistical database. The authorities requested technical assistance from the Fund to improve the balance of payments statistics; a mission has been scheduled for late 2004. Benin will also continue to benefit from technical assistance from West AFRITAC in the area of tax and customs administration, income taxation, public expenditure management, and statistics. The authorities are in the process of implementing the set of rules harmonizing the methodology for compiling the national accounts among WAEMU countries. They have also started implementing the action plan to address methodological weaknesses in compiling poverty data and other social indicators.

[21] These efforts have already permitted to increase the share of grants in the financing of projects from an average of 29 percent during 2000-02 to about 48 percent in 2003.

Box 5. Benin: External Debt and the Paris Club Rescheduling

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

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

As of end-June 2004, Benin had concluded bilateral debt relief agreements with all Paris Club members. Six of these creditors (Germany, the Netherlands, Norway, France, Italy, and the United Kingdom) agreed to cancel, outside the framework of the Paris Club, 100 percent of the remaining outstanding debt.

The government has requested all its multilateral and bilateral non-Paris Club creditors to provide debt relief consistent with the HIPC Initiative. Understandings have been reached with almost all the multilateral institutions on providing the debt relief, including the IMF, the African Development Bank, the World Bank, the West African Development Bank, the Arab Bank for Economic Development in Africa, the European Investment Bank, the International Fund for Agricultural Development, and the Islamic Development Bank—creditors representing about 80 percent of nominal debt owed by Benin at-end 2001. As regards non-Paris Club creditors, an agreement has been reached with the Kuwait Fund. Negotiations are ongoing with the other bilateral non-Paris Club creditors and remaining multilateral creditors.

1/ As indicated in the completion point document ("Benin—Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document;" Country Report 03/189), Benin's total outstanding debt at end-2001 was estimated at about US$1.37 billion in nominal terms (about 59 percent of 2001 GDP) and US$857 million in NPV terms. Approximately 82 percent of the debt in nominal terms was owed to multilateral creditors, 13 percent to Paris Club creditors, and 5 percent to non-Paris Club bilateral creditors. The only outstanding commercial debt had been settled through a buyback operation on terms comparable to those obtained from the Paris Club.

IV. Ex Post Assessment of Performance and Future Role of the Fund

40. **The authorities, as well as the representatives of the private sector and of the donor community in Benin, concurred with the thrust of the ex post assessment (EPA)**, which was prepared recently by an interdepartmental team (Box 6). They stressed that a further PRGF arrangement with low access would help Benin in addressing the challenges in the Fund's core areas of responsibility, facilitate the mobilization of concessional international financial support to finance its development agenda, and provide a framework for a sound policy response in case of exogenous shocks.

41. **The authorities agreed with the staff that continued Fund involvement would rest on pursuing fiscal consolidation—while increasing the level and quality of poverty-reducing spending, and improving governance at customs—as well as accelerating the implementation of the reform agenda**. The staff indicated that the Fund would continue to focus on its core areas of reform expertise, notably domestic revenue mobilization, public resource management, external debt management, and integrating the PRSP into a sound multiyear macroeconomic framework, while keeping its close collaboration with the World Bank, which would be expected to play a lead role in a number of other reform areas.

V. Staff Appraisal

42. **Over 2001-03, economic performance was broadly satisfactory**. Benin continued to display strong economic growth and low inflation; and the fiscal stance remained appropriate. However, progress on the structural front has been slow, Benin's external competitiveness has deteriorated, and the economy has remained vulnerable to external shocks.

43. **Economic performance in 2004 has been adversely affected by an intensification of import restrictions from Nigeria and a poor cotton crop**—resulting from the weak functioning of the institutions overseeing the marketing of seed cotton and inputs. As a result, real GDP growth is projected to slow down this year to 3 percent, tax revenue would be lower than-anticipated, and the external current account deficit would widen moderately.

44. **The authorities need to implement forcefully the planned adjustment measures in the fiscal area to contain the deterioration of the fiscal situation that started at the beginning of the year.** However, further measures may be necessary to contain the deficit if weaknesses in revenue collection continue.

45. **For the medium term, it would be important that the authorities move resolutely in implementing the required measures in order to regain the high and sustained growth path necessary to reduce poverty and make progress toward achieving the MDGs.** These measures, in the areas of fiscal policy, structural reforms and the private sector development, are designed to improve the economy's efficiency while preserving and reinforcing macroeconomic stability.

Box 6. Benin: Overview of the Ex Post Assessment of Benin's Performance Under Fund-Supported Programs

Overview of performance

Program implementation during 1993-2003 was broadly successful. Real economic growth averaged 5 percent. Inflation remained subdued. Fiscal consolidation improved substantially, as the key initial challenges arising from the low level of revenue collection and the high level of the wage bill were addressed. Implementation of the regional common external tariff, however, was reportedly associated with fraud and corruption.

Overall progress in structural reform was mixed. While initial efforts to liberalize the economy and reduce government intervention were successful, and there was significant progress in introducing far-reaching reforms to liberalize the cotton sector, further reforms, including the divestiture program for public utilities and the civil service reform incurred protracted delays.

Regarding program design, some of the challenges posed by the shortcomings in reforms, including in particular governance problems in customs and the slippage in civil service reform, were not addressed in a timely manner. Programs could also have placed an earlier emphasis on the need to strengthen debt management capacity. Furthermore, Benin's mixed record of structural policy implementation has been indicative of incomplete program ownership, lapses in coordination, and weak institutional and administrative capacity.

Conclusions and recommendations

In accordance with the objectives of the PRSP, the main challenge for the future is to reach a higher and sustained growth and reduce poverty, while preserving and reinforcing macroeconomic stability and making the economy less vulnerable to external shocks. This will require continuation of fiscal consolidation while increasing poverty-reducing spending, and enhanced efforts to implement the uncompleted reform agenda.

A further PRGF arrangement with low access would help assist Benin in addressing the challenges in the Fund's core areas of responsibility, facilitate the securing of concessional international financial support to finance the development agenda, and provide a framework for sound policy response in case of exogenous shocks. This successor arrangement, however, should have as a key objective Benin's graduation from the use of Fund resources upon its completion.

Drawing on the evaluation of the design and implementation of past Fund-supported programs, a future program should tackle the ownership issue through improved transparency and consensus building, build in safeguards to minimize risks to structural reform implementation, and help improve the policy response to external shocks.

46. **Achieving the revised medium-term fiscal objectives will require continued efforts to boost revenue collection and increase the level and quality of poverty-reducing spending, while curbing nonpriority expenditure**. To that effect, the authorities intend to implement forcefully the action plans aimed at improving the performance of tax and customs administrations, ensuring that budgetary allocations reflect PRSP priorities, and refraining from providing further wage increases before the implementation of a new compensation system. In parallel, to improve the efficiency and transparency of public spending, they would complete the reforms under way in public expenditure management.

47. **A new impetus in the implementation of the uncompleted reform agenda is needed, to make the economy more competitive and improve the delivery of services to the population**. It would be important that the authorities establish a credible agenda for the divestiture program and implement it in a timely and transparent manner, and that they adopt and implement a new administrative and civil service management reform. In the cotton sector, the authorities intend to strengthen the new institutions in charge of seed cotton and input commercialization, to avoid further disturbances; they are encouraged to plan the next steps of the reform in parallel. Adherence to these reforms is essential to strengthen competitiveness in the context of a fixed exchange rate.

48. **To promote the development of the private sector, the authorities intend to improve the business environment**. This will require a forceful implementation of the national strategy to fight corruption and of the program to strengthen the legal and judiciary system, as well as better governance and transparency at customs.

49. **Export diversification is expected to benefit from the acceleration of reforms and the liberal trade and payments system**. Benin's external position would be further strengthened if the high cotton subsidies from the world's major cotton-producing countries and import restrictions from Nigeria were discontinued.

50. **The authorities intend to continue to strengthen the financial sector.** While the health of the banking sector has been generally sound, it would be important to remain vigilant to ensure that all banks comply with the Regional Banking Commission's prudential ratios.

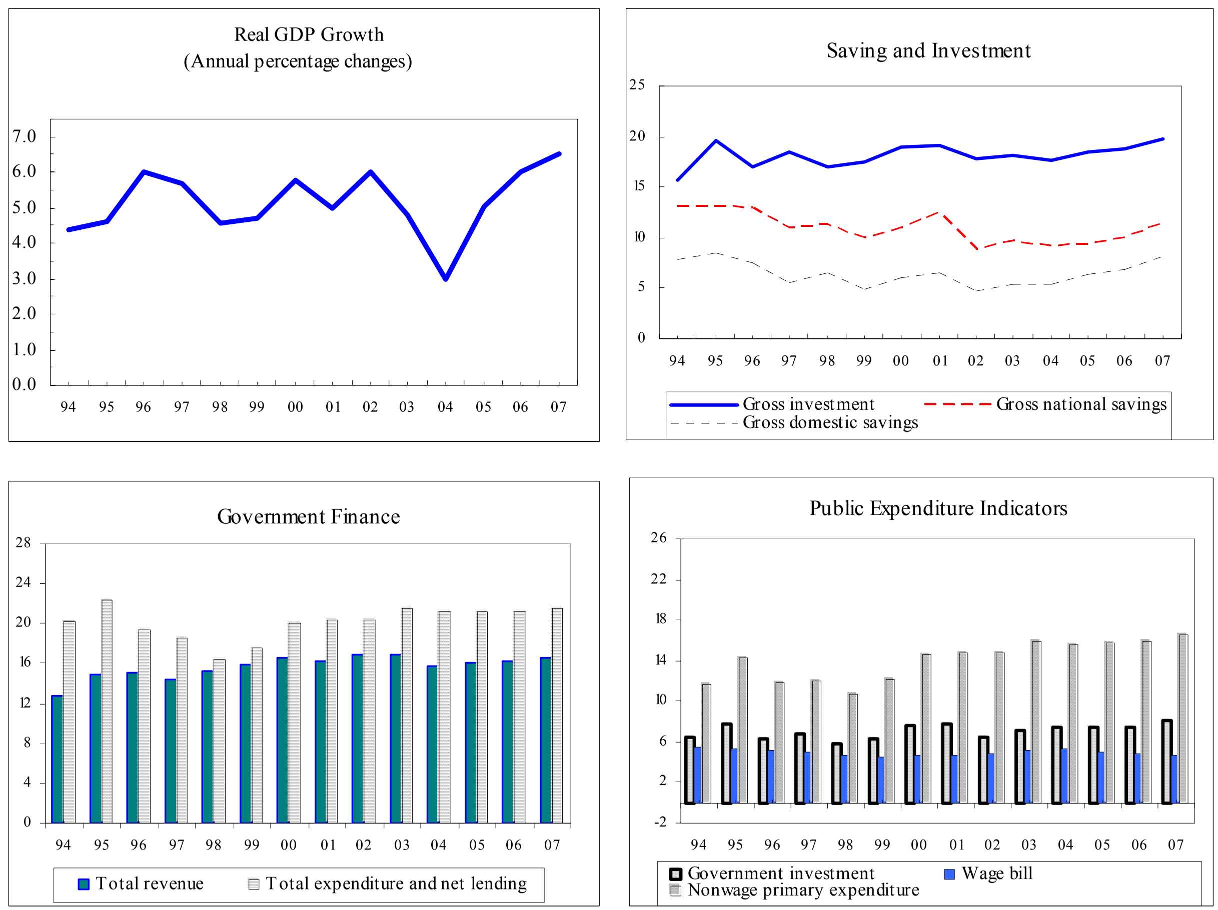
51. The updated **debt sustainability analysis** stressed the need for Benin to continue to follow a very prudent debt-management policy, in order to stay on a sustainable path. This would also help mitigate the potential downside risks relating to potential shocks.

52. **It would be important that the authorities complete the first annual assessment of the implementation of their poverty reduction strategy promptly.** In the meantime, the authorities should continue addressing the shortcomings of the PRSP outlined in the JSA.

53. It is recommended that the next Article IV consultation be held on the standard 12-month consultation cycle.

Figure 1. Benin: Selected Economic and Financial Indicators, 1994-2007 1/

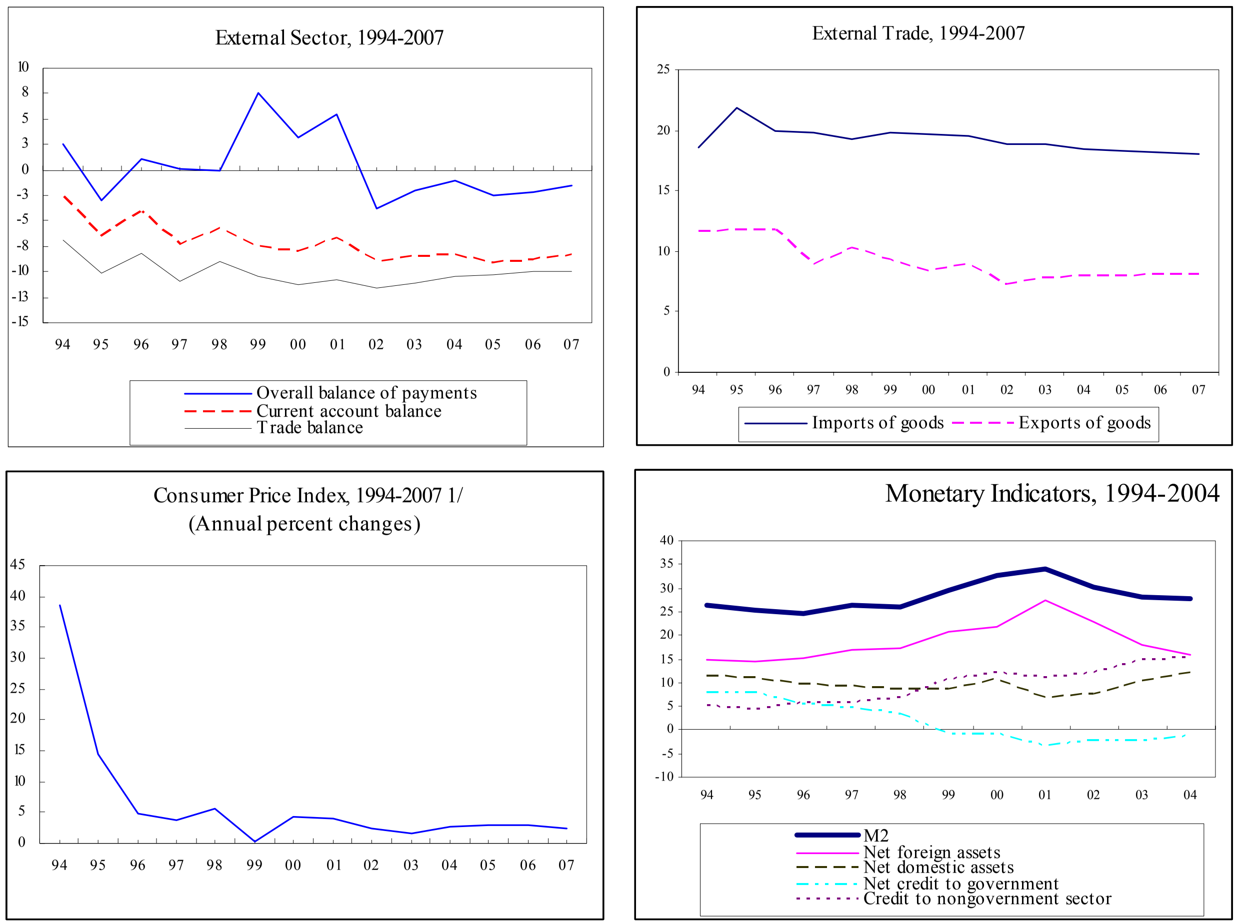
(In percent of GDP, unless otherwise indicated)



Sources: Beninese authorities; and staff estimates and projections.

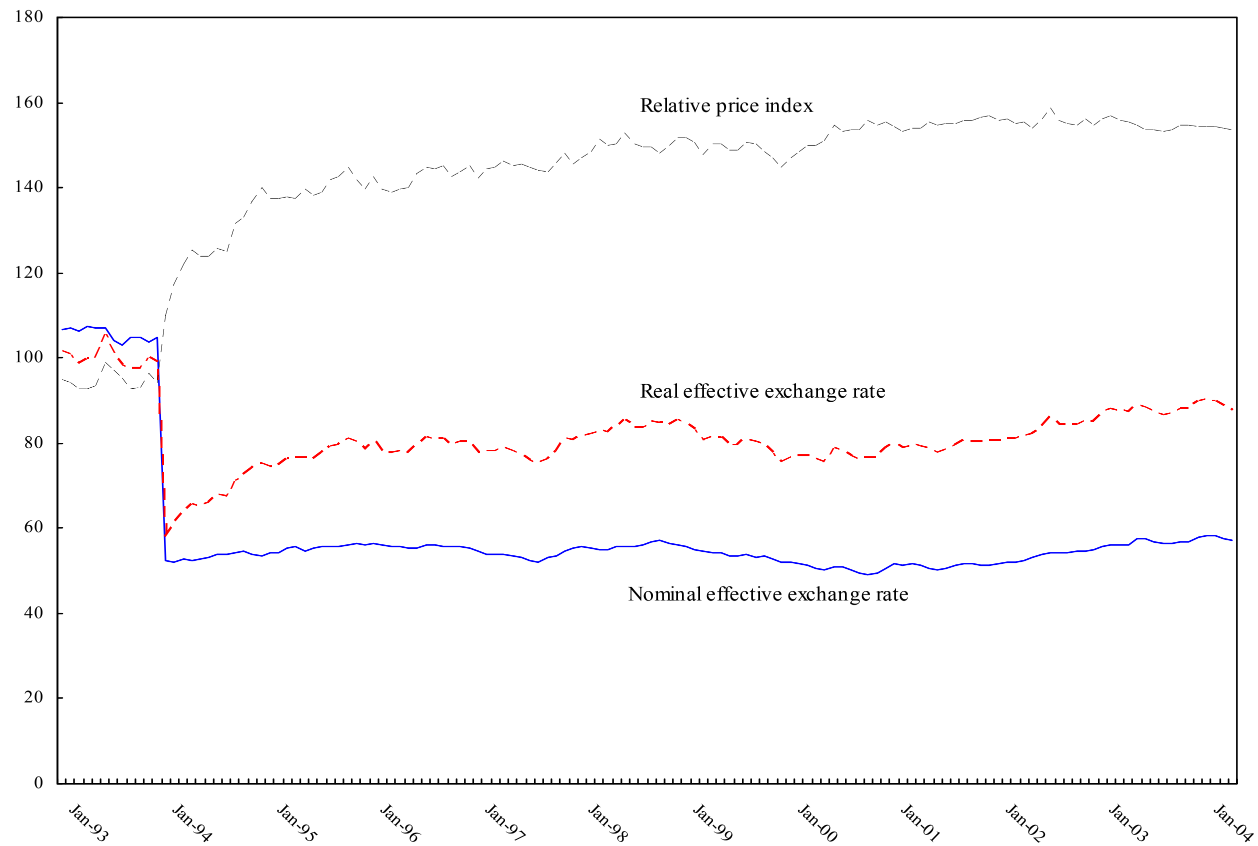
1/ 2004-07 data are projections.

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



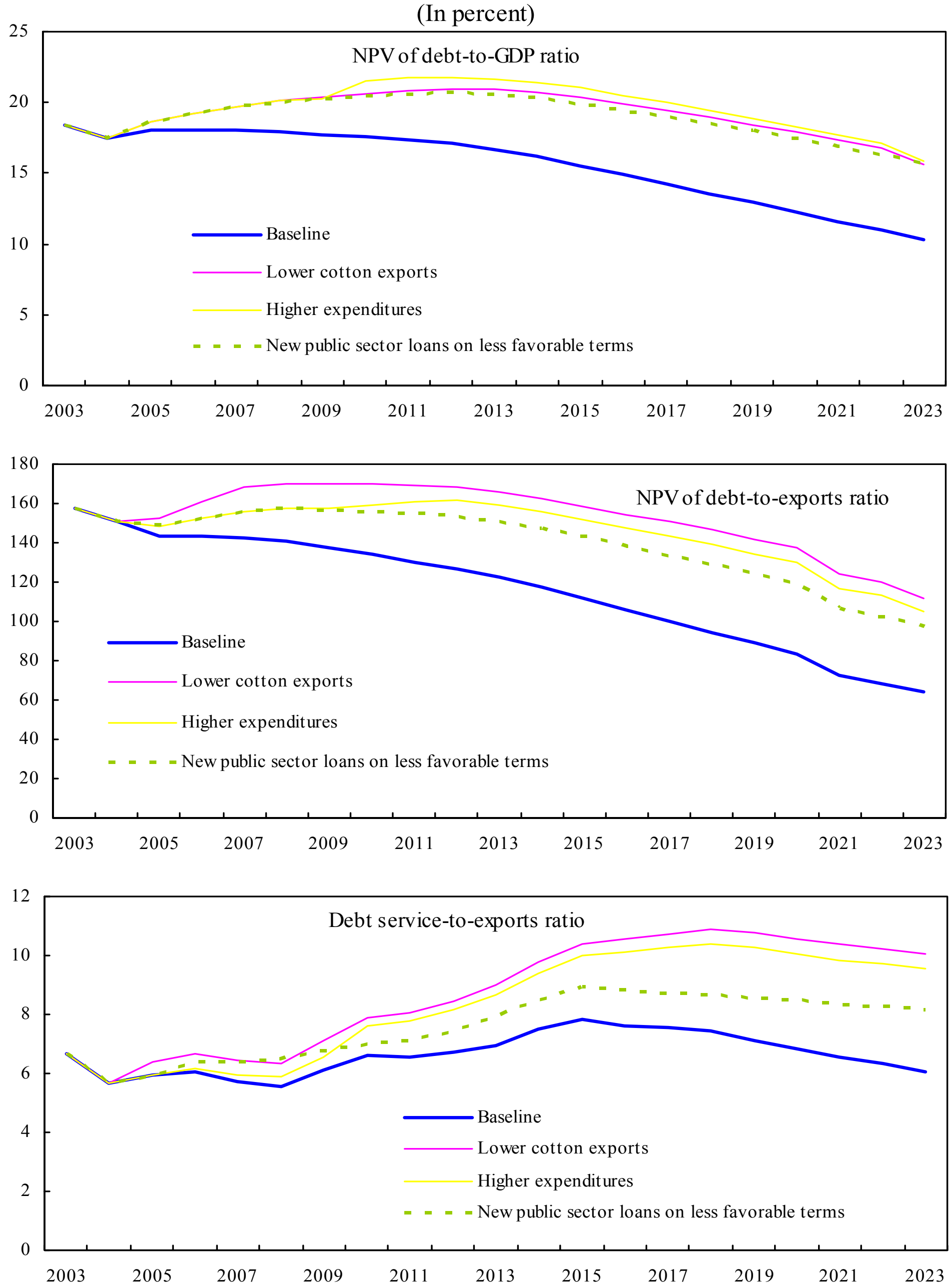
Sources: Beninese authorities; and staff estimates and projections.
1/ 2004-07 data are projections.

Figure 3. Benin: Effective Exchange Rates, January 1993-April 2004
(Index 1990 = 100)



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

Figure 4. Benin: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2003–23
(In percent)



Source: Staff projections and simulations.

Table 1. Benin: Main Economic Indicators, 2000-07

	2000	2001	2002	2003	2004 Initial proj. 1/	2004 New proj.	2005 Proj.	2006 Proj.	2007 Proj.
	(Annual changes in percent, unless otherwise indicated)								
National income									
GDP at current prices	9.2	8.3	8.0	7.5	9.9	6.7	8.2	9.2	9.2
GDP at constant prices	5.8	5.0	6.0	4.8	6.0	3.0	5.0	6.0	6.5
GDP deflator	3.3	3.1	2.0	2.6	3.6	3.6	3.0	3.0	2.5
Consumer price index (average)	4.2	4.0	2.4	1.5	2.6	2.6	3.0	3.0	2.5
Consumer price index (end of period)	9.8	2.3	1.2	0.8	3.0	3.0	3.0	3.0	2.5
Central government finance									
Revenue	13.3	5.5	13.2	7.8	10.9	-0.7	9.6	10.3	12.3
Expenditure and net lending	25.0	9.5	8.5	13.9	11.2	5.0	7.8	9.0	9.8
Money and credit									
Net domestic assets 2/	10.5	-10.9	4.6	11.0	5.5	9.0	...	...	...
Domestic credit 2/	9.4	-9.2	7.6	12.8	5.5	9.0	...	...	...
Net claims on central government 2/	0.3	-9.1	2.3	-0.2	-0.5	4.2	...	...	...
Credit to the nongovernment sector	25.5	-0.3	16.1	33.0	11.7	9.1	...	...	...
Broad money	21.2	12.7	-3.8	0.2	10.0	5.2	...	...	...
Velocity (GDP relative to average M2)	3.3	3.1	3.2	3.6	3.8	3.7	...	...	...
External sector									
Exports, f.o.b. (in terms of CFA francs)	-3.0	15.3	-11.0	14.4	20.6	10.0	8.5	10.5	9.8
Imports, f.o.b. (in terms of CFA francs)	8.1	8.0	4.1	7.2	8.1	4.5	7.6	8.1	8.6
Export volume	-11.0	-2.8	9.3	5.4	7.0	-3.8	7.6	8.7	8.8
Import volume	2.0	5.0	7.3	5.7	7.6	2.9	4.7	6.0	6.5
Terms of trade	2.9	15.3	-16.0	7.0	12.2	12.6	-1.9	-0.4	-0.9
Nominal effective exchange rate (- deprec.)	-6.1	1.3	4.4	4.1	...	...	...	...	...
Real effective exchange rate (- deprec.)	-4.2	3.2	4.8	4.6	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Basic ratios									
Gross investment	18.9	19.2	17.8	18.2	19.3	17.6	18.5	18.8	19.2
Government investment	7.6	7.8	6.4	7.2	8.3	7.4	7.5	7.4	7.6
Private sector investment	11.3	11.4	11.4	11.0	11.0	10.2	11.0	11.4	11.6
Gross domestic saving	6.0	6.5	4.7	5.5	8.1	5.3	6.3	6.9	7.6
Government saving	4.9	4.4	3.7	3.1	4.0	2.3	2.6	2.7	3.2
Nongovernment saving	1.1	2.1	1.0	2.4	4.1	3.1	3.7	4.2	4.4
Gross national saving	10.9	12.5	8.9	9.7	12.8	9.2	9.4	10.0	10.9
Central government finance									
Revenue	16.6	16.2	16.9	17.0	17.0	15.8	16.0	16.2	16.6
Expenditure and net lending	20.1	20.3	20.4	21.6	21.7	21.3	21.2	21.2	21.3
Primary balance 3/	-2.6	-3.3	-2.6	-4.0	-4.3	-5.1	-4.8	-4.6	-4.4
Overall fiscal deficit (payment order basis, excluding grants)	-3.5	-4.2	-3.5	-4.6	-4.7	-5.5	-5.2	-5.0	-4.7
Overall fiscal deficit (payment order basis, including grants)	-1.8	-1.5	-2.4	-2.6	-1.5	-2.1	-2.9	-2.9	-2.7
Debt service 5/	14.4	9.2	8.0	5.4	5.4	6.0	6.0	5.2	5.3
External sector									
Current account balance (- deficit)	-8.0	-6.7	-9.0	-8.5	-6.5	-8.4	-9.1	-8.8	-8.3
Overall balance of payments (- deficit)	3.2	5.4	-3.8	-2.0	1.1	-1.0	-2.5	-2.1	-1.4
Debt-service ratio (after debt relief) 6/	15.7	9.9	9.9	6.6	6.3	5.7	5.9	6.1	5.7
Net present value of debt-to-exports ratio (after debt relief) 7/	203.9	231.4	243.8	157.5	158.4	150.6	143.6	143.2	143.9
Debt-to-GDP ratio (after debt relief)	58.3	57.3	49.5	35.8	37.2	33.3	33.3	32.6	31.8
Gross reserves (in months of imports of goods and services)	8.6	10.8	8.8	7.9	8.3	7.2	...	...	...
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,020.0	2,234.1	2,155.5	2331.3	2545.8	2779.1
CFA francs per U.S. dollar (period average)	712.0	728.8	694.8	580.1	...	...	...	...	...
Population (midyear, in millions)	6.3	6.5	6.7	7.0	7.2	7.2	7.4	7.6	7.9

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in Country Report 04/118

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

3/ Total revenue minus all expenditure, excluding interest.

4/ Before all official grants.

5/ Scheduled debt service in percent of fiscal revenue.

6/ In terms of current year exports of goods and nonfactor services.

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

Table 2. Benin: Macroeconomic Indicators, 2000-07
(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007
						Proj.		
Resource gap (1)	12.9	12.7	13.1	12.7	12.2	12.1	11.9	11.6
Exports of goods and nonfactor services	15.2	15.0	13.8	14.1	13.7	13.7	13.7	13.9
Imports of goods and nonfactor services	28.1	27.7	26.9	26.8	25.9	25.8	25.6	25.5
Total gross investment (2)	18.9	19.2	17.8	18.2	17.6	18.5	18.8	19.2
Central government investment (A)	7.6	7.8	6.4	7.2	7.4	7.5	7.4	7.6
Private sector investment (B)	11.3	11.4	11.4	11.0	10.2	11.0	11.4	11.6
Domestic saving (3) = (2) - (1)	6.0	6.5	4.7	5.5	5.3	6.3	6.9	7.6
National saving (6) = (3) + (4) + (5)	10.9	12.5	8.9	9.7	9.2	9.4	10.0	10.9
Net factor income (4)	-0.5	-0.9	-1.0	-0.7	-0.5	-0.5	-0.5	-0.4
Unrequited transfers (5)	5.5	6.9	5.1	4.9	4.4	3.6	3.6	3.7
Government national saving (7)	5.9	7.1	5.1	4.7	3.6	3.3	3.6	4.5
Budget deficit	-3.5	-4.2	-3.5	-4.6	-5.5	-5.2	-5.0	-4.7
Government investment	7.6	7.8	6.4	7.2	7.4	7.5	7.4	7.6
Public transfers (current)	1.8	3.5	2.2	2.2	1.7	1.0	1.2	1.5
Government domestic saving (8)	4.9	4.4	3.7	3.1	2.3	2.6	2.7	3.2
Public transfers (current)	1.8	3.5	2.2	2.2	1.7	1.0	1.2	1.5
Net factor income	-0.8	-0.8	-0.8	-0.6	-0.4	-0.4	-0.3	-0.3
Nongovernment national saving (9) = (6) - (7)	5.0	5.3	3.7	5.0	5.6	6.1	6.4	6.5
Nongovernment domestic saving (10) = (3) - (8)	1.1	2.1	1.0	2.4	3.1	3.7	4.2	4.4
Saving-investment balance	-8.0	-6.7	-9.0	-8.5	-8.4	-9.1	-8.8	-8.3
Nongov. sector saving-investment balance (9) - (B)	-6.3	-6.1	-7.7	-6.0	-4.6	-4.9	-5.0	-5.1
Government saving-investment balance (7) - (A)	-1.8	-0.6	-1.3	-2.5	-3.8	-4.1	-3.8	-3.1
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,020.0	2,155.5	2,331.3	2,545.8	2,779.1
Nominal GNP (in billions of CFA francs)	1,596.7	1,723.0	1,860.4	2,004.9	2,143.9	2,319.6	2,534.0	2,767.4

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

Table 3. Benin: Consolidated Government Operations, 2000-07
(In billions of CFA francs)

	2000	2001	2002	2003	2004		2005	2006	2007
					Budget	Proj.		Proj.	
Total revenue	266.2	281.0	318.2	342.9	380.4	340.4	373.0	411.5	462.0
Tax revenue	234.1	247.1	282.5	307.2	341.8	304.9	338.0	376.5	427.0
Tax on international trade	126.7	133.2	145.9	159.2	179.5	153.5	174.0	194.5	217.0
Direct and indirect taxes	107.4	113.9	136.6	148.0	162.4	151.4	164.0	182.0	210.0
Nontax revenue	32.1	33.9	35.7	35.7	38.6	35.5	35.0	35.0	35.0
Total expenditure	322.5	353.2	383.2	436.4	485.4	458.3	494.2	538.9	591.9
Of which : primary expenditures	220.7	257.8	298.3	352.7	381.5	354.4	385.1	437.6	484.0
Wages	74.8	80.7	90.1	103.0	114.1	114.1	118.2	124.1	136.1
Pensions and scholarships	19.3	20.5	21.5	25.7	26.1	26.1	27.9	30.2	32.5
Other current expenditure	91.5	101.1	132.2	152.6	151.2	151.2	165.0	186.8	204.5
Investment	122.5	135.3	120.7	144.8	186.1	159.0	174.2	188.2	211.2
Budgetary contribution	35.0	55.4	54.5	71.4	90.1	63.0	74.0	96.5	110.9
Financed from abroad	87.4	79.8	66.2	73.4	96.0	96.0	100.2	91.7	100.3
Net lending (minus = reimbursement)	0.3	0.4	3.2	-2.0	-0.9	-0.9	0.0	0.0	0.0
Primary balance (narrow definition) 1/	45.5	23.2	19.9	-9.7	-1.1	-14.0	-12.1	-26.1	-22.0
Primary balance	-42.2	-57.0	-49.5	-81.1	-96.3	-109.2	-112.3	-117.8	-122.3
Interest	14.1	15.2	15.5	12.3	8.7	8.7	8.9	9.6	7.6
Internal debt	1.6	1.8	1.2	1.0	0.8	0.8	0.7	0.7	0.2
External debt 2/	12.4	13.5	14.3	11.3	7.9	7.9	8.2	8.9	7.4
Overall balance (payment order basis)	-56.3	-72.3	-65.1	-93.4	-105.0	-117.9	-121.2	-127.4	-129.9
Change in arrears	-30.6	-6.7	-6.7	-5.6	-2.0	-2.0	0.0	0.0	0.0
External debt (principal and interest payments)	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	-15.8	-6.7	-6.7	-5.6	-2.0	-2.0	0.0	0.0	0.0
Float	-0.6	8.4	-13.8	18.9	-7.0	-24.0	0.0	0.0	0.0
Overall balance (cash basis)	-87.5	-70.6	-85.5	-80.2	-114.0	-144.0	-121.2	-127.4	-129.9
Financing	87.5	70.6	85.5	80.2	114.0	144.0	71.2	71.4	75.6
Domestic financing	13.9	-49.0	11.4	-3.5	-13.3	16.4	-12.5	-12.0	-12.0
Bank financing	1.2	-47.8	13.7	-1.5	-2.7	23.9	-3.4	0.0	0.0
Net use of Fund resources	-2.5	-3.1	-6.8	-3.5	-2.7	-2.7	-3.4	-3.9	-4.3
Disbursements	6.3	7.5	3.6	5.4	1.1	1.1	0.0	0.0	0.0
Repayments 2/	-8.9	-10.5	-10.4	-8.9	-3.8	-3.8	-3.4	-3.9	-4.3
Other	3.8	-44.7	20.4	2.0	0.0	26.6	0.0	3.9	4.3
Nonbank financing	12.6	-1.3	-2.3	-2.0	-10.6	-7.5	-9.1	-12.0	-12.0
Privatization	0.9	0.0	0.0	3.8	0.0	0.0	0.0	0.0	0.0
Restructuring	1.4	-1.3	-1.7	-3.4	-8.0	-5.0	-9.1	-10.0	-10.0
Other	10.3	0.0	-0.6	-2.4	-2.5	-2.5	0.0	-2.0	-2.0
External financing	73.7	119.6	74.2	83.7	127.3	127.6	83.7	83.4	87.6
Project financing	74.4	79.8	71.5	73.4	96.0	96.0	94.3	91.7	100.3
Grants	25.3	24.5	16.4	35.6	54.0	54.0	54.2	54.5	54.5
Loans	49.1	55.3	55.1	37.8	42.0	42.0	40.1	37.2	45.8
Amortization due 2/	-22.9	-17.5	-18.8	-17.9	-8.4	-8.4	-10.6	-8.3	-12.7
Program aid	1.7	41.7	3.7	11.2	39.7	40.0	0.0	0.0	0.0
Grants	1.7	21.5	3.7	4.9	18.0	18.3	0.0	0.0	0.0
Loans	0.0	20.2	0.0	6.3	21.7	21.7	0.0	0.0	0.0
Debt relief	20.5	15.7	17.8	17.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	50.0	56.0	54.3
	(In percent of GDP, unless otherwise indicated)								
Memorandum items:									
Total revenue and grants	18.3	18.8	18.0	19.0	20.2	19.1	18.3	18.3	18.6
Grants	1.7	2.6	1.1	2.0	3.2	3.4	2.3	2.1	2.0
Total revenue	16.6	16.2	16.9	17.0	17.0	15.8	16.0	16.2	16.6
Total expenditure and net lending	20.1	20.3	20.4	21.6	21.7	21.3	21.2	21.2	21.3
Of which									
Wages	4.7	4.6	4.8	5.1	5.1	5.3	5.1	4.9	4.9
Public investment	7.6	7.8	6.4	7.2	8.3	7.4	7.5	7.4	7.6
Social expenditure 3/	4.8	5.9	5.1	5.7	6.9	7.1	---	---	---
Overall balance (payment order basis, excl. grants)	-3.5	-4.2	-3.5	-4.6	-4.7	-5.5	-5.2	-5.0	-4.7
Excluding HIPC-financed expenditure	-3.3	-3.2	-2.5	-3.7	-3.8	-4.6	-4.4	-4.3	-4.0
Overall balance (payment order basis, incl. grants)	-1.8	-1.5	-2.4	-2.6	-1.5	-2.1	-2.9	-2.9	-2.7
Primary balance (narrow definition)	2.8	1.3	1.1	-0.5	-0.1	-0.7	-0.5	-1.0	-0.8
Excluding HIPC-financed expenditure	3.1	2.3	2.0	0.5	0.8	0.2	0.2	-0.4	-0.2
Primary balance	-2.6	-3.3	-2.6	-4.0	-4.3	-5.1	-4.8	-4.6	-4.4
GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	2,020.0	2,234.1	2,155.5	2,331.3	2,545.8	2,779.1

Sources: Beninese authorities; and staff estimates and projections.

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

2/ HIPC Initiative relief is netted out from interest and principal due for the period 2004-07.

3/ Comprises health and education expenditures.

Table 4. Benin: Monetary Survey, 2000-04

	2000	2001	2002	2003				2004
				March	June	Sep.	Dec. Est.	Dec. Proj.
				(In billions of CFA francs)				
Net foreign assets	352.7	476.8	426.7	376.0	358.1	352.8	365.5	344.0
Central Bank of West African States (BCEAO)	261.5	371.2	318.1	282.9	266.6	260.4	294.3	272.8
Banks	91.2	105.6	108.6	93.1	91.5	92.4	71.2	71.2
Net domestic assets	172.9	115.7	143.1	172.3	177.2	176.4	205.5	256.7
Domestic credit	181.7	133.4	178.2	198.5	208.2	217.8	250.9	302.1
Net claims on central government	-12.3	-60.1	-46.5	-36.2	-55.8	-49.8	-47.8	-23.9
Credit to the nongovernment sector	194.0	193.5	224.6	236.9	263.7	267.2	298.7	326.0
Other items (net)	-8.8	-17.7	-35.1	-26.2	-31.0	-41.4	-45.4	-45.4
Broad money (M2)	525.6	592.5	569.8	548.3	535.3	529.2	571.0	600.7
Currency	211.2	223.8	170.9	167.4	129.6	143.6	153.7	155.4
Bank deposits	308.3	360.1	391.9	373.4	398.2	378.2	409.9	437.4
Deposits with CCP 1/	6.1	8.6	7.0	7.5	7.5	7.4	7.4	7.9
			(In percentage of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	10.7	23.6	-8.5	-8.9	-12.0	-13.0	-10.7	-3.8
Net domestic assets	10.5	-10.9	4.6	5.1	6.0	5.8	11.0	9.0
Domestic credit	9.4	-9.2	7.6	3.6	5.3	6.9	12.8	9.0
Net claims on government	0.3	-9.1	2.3	1.8	-1.6	-0.6	-0.2	4.2
Credit to nongovernment sector	9.1	-0.1	5.2	2.2	6.9	7.5	13.0	4.8
Broad money (percentage change over beginning of period)	21.2	12.7	-3.8	-3.8	-6.1	-7.1	0.2	5.2
Velocity of broad money (GDP relative to average M2)	3.3	3.1	3.2	…	…	…	3.5	3.7
Credit to the nongovernment sector (annual change in percent)	25.5	-0.3	16.1	29.6	25.2	28.5	33.0	9.1
Nominal GDP (in billions of CFA francs)	1,605.4	1,738.6	1,878.5	…	…	…	2,020.0	2,155.5

Sources: BCEAO; and staff estimates and projections.

1/ CCP = comptes chèques postaux.

Table 5. Benin: Balance of Payments, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
				Est.	Proj.			
	(In billions of CFA francs)							
Trade balance	-181.9	-186.9	-217.6	-223.6	-224.9	-240.6	-255.7	-275.0
Exports, f.o.b.	132.9	153.2	136.4	156.0	171.6	186.1	205.6	225.9
Cotton and textiles	107.3	115.9	93.3	107.7	120.3	129.6	144.1	154.5
Other	25.6	37.3	43.1	48.3	51.3	56.5	61.6	71.4
Imports, f.o.b.	-314.8	-340.1	-354.0	-379.5	-396.5	-426.7	-461.3	-500.9
Of which								
Petroleum products	-46.8	-40.1	-42.3	-43.0	-48.5	-48.8	-48.1	-53.1
Services (net)	-25.8	-34.1	-28.7	-33.0	-39.1	-42.5	-46.7	-47.3
Credit	110.9	106.9	122.1	127.9	122.7	132.2	142.4	161.2
Debit	-136.6	-141.0	-150.8	-160.9	-161.7	-174.7	-189.2	-208.5
Income (net)	-8.7	-15.6	-18.1	-15.0	-11.6	-11.7	-11.8	-11.7
Of which								
Interest due on government debt 1/	-12.4	-13.5	-14.3	-10.4	-7.9	-8.2	-8.9	-9.0
Current transfers (net)	87.6	120.2	96.2	99.9	94.3	83.1	91.2	104.1
Unrequited private transfers	59.5	59.1	55.3	56.4	57.5	58.7	59.9	61.1
Public current transfers	28.1	61.1	40.9	43.5	36.8	24.5	31.3	43.0
Of which								
Program grants	1.7	21.5	3.7	4.9	18.3	0.0	0.0	0.0
Current account	-128.8	-116.4	-168.2	-171.7	-181.2	-211.6	-223.0	-229.9
Capital account	32.3	31.8	23.8	110.8	61.9	62.3	62.9	63.0
Official project grants	32.3	31.8	23.8	43.2	61.9	62.3	62.9	63.0
Debt cancellation 2/	---	---	---	67.6	---	---	---	---
Financial account (net)	148.4	178.7	73.5	20.0	97.9	91.2	105.9	120.6
Medium- and long-term public capital	29.5	61.4	39.9	29.8	59.0	33.3	32.8	37.9
Disbursements	52.4	78.9	58.6	47.7	67.4	43.9	41.1	49.8
Project loans	52.4	58.7	58.6	41.4	45.7	43.9	41.1	49.8
Program loans	0.0	20.2	0.0	6.3	21.7	0.0	0.0	0.0
Amortization due 1/	-22.9	-17.5	-18.8	-17.9	-8.4	-10.6	-8.3	-11.9
Principal not yet due 2/	---	---	---	-67.6	---	---	---	---
Medium- and long-term private capital	53.2	26.0	8.8	18.8	19.7	25.5	35.3	40.7
Deposit money banks	11.3	-14.4	-3.0	37.4	0.0	0.0	0.0	0.0
Short-term capital	-1.6	43.7	19.6	6.4	19.1	32.4	37.8	42.0
Errors and omissions	56.0	62.0	8.3	-4.8	0.0	0.0	0.0	0.0
Overall balance	52.0	94.0	-70.9	-40.8	-21.5	-58.1	-54.3	-46.3
Financing	-52.0	-94.1	70.9	40.8	21.5	8.1	-1.7	-8.0
Change in net foreign assets (- increase)	-57.7	-109.7	53.1	23.8	21.5	8.1	-1.7	-8.0
Of which								
Net use of Fund resources	-2.5	-3.1	-6.8	-3.4	-2.7	-3.4	-4.0	-4.3
Loans	6.3	7.5	3.6	5.5	1.1	0.0	0.0	0.0
Repayments 1/	-8.9	-10.5	-10.4	-8.9	-3.8	-3.4	-4.0	-4.3
Change in external arrears (+ increase)	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	20.5	15.7	17.7	17.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	50.0	56.0	54.3
Possible HIPC Initiative assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	50.0	56.0	54.3

Sources: Beninese authorities; and staff estimates and projections.

1/ HIPC Initiative relief is netted out from interest and principal due for the period 2004-07.
2/ The entry in 2003 is for the stock-of-debt operation at the completion point.

Table 6. Benin: Balance of Payments, 2000-07

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007
						Proj.		
Trade balance	-258.0	-256.4	-313.2	-385.3	-422.8	-447.9	-476.9	-513.0
Exports, f.o.b.	188.5	210.2	196.3	268.9	322.6	346.4	383.6	421.4
Cotton and textiles	152.2	159.1	134.2	185.7	226.2	241.3	268.8	288.2
Other	36.3	51.2	62.0	83.2	96.4	105.2	114.9	133.3
Imports, f.o.b.	-446.5	-466.6	-509.5	-654.2	-745.4	-794.4	-860.6	-934.4
Of which								
Petroleum products	-66.4	-55.0	-60.9	-74.1	-91.1	-90.8	-89.7	-99.0
Services (net)	-36.5	-46.8	-41.3	-56.9	-73.4	-79.1	-87.2	-88.2
Credit	157.2	146.7	175.7	220.4	230.7	246.1	265.7	300.8
Debit	-193.8	-193.5	-217.0	-277.3	-304.1	-325.1	-352.9	-389.0
Income (net)	-12.3	-21.4	-26.0	-25.9	-21.8	-21.7	-22.0	-21.8
Of which								
Interest due on government debt 1/	-17.5	-18.5	-20.6	-19.4	-14.8	-15.3	-16.6	-16.8
Current transfers (net)	124.3	164.9	138.5	172.2	177.3	154.8	170.1	194.1
Unrequited private transfers	84.4	81.1	79.6	97.2	108.2	109.2	111.7	113.9
Public current transfers	39.9	83.8	58.9	75.0	69.2	45.5	58.4	80.2
Current account	-182.6	-159.7	-242.1	-295.9	-340.7	-393.9	-416.1	-428.8
Capital account	45.8	43.6	34.3	191.1	116.3	116.1	117.3	117.6
Official project grants	45.8	43.6	34.3	74.5	116.3	116.1	117.3	117.6
Debt cancellation	---	---	---	116.5	---	---	---	---
Financial account (net)	210.5	245.2	105.8	151.0	184.0	169.8	197.5	224.9
Medium- and long-term public capital	41.8	84.2	57.4	51.4	111.0	62.1	61.3	70.7
Disbursements	74.3	108.2	84.4	82.3	126.7	81.8	76.7	92.9
Project loans	74.3	80.5	84.4	71.4	86.0	81.8	76.7	92.9
Program loans	0.0	27.7	0.0	10.9	40.8	0.0	0.0	0.0
Amortization due 1/	-32.4	-24.0	-27.0	-30.9	-15.8	-19.7	-15.5	-22.1
Principal not yet due 2/	---	---	---	-116.5	---	---	---	---
Medium- and long-term private capital	75.5	35.7	12.7	32.4	37.1	47.5	65.8	76.0
Deposit money banks	16.0	-19.7	-4.3	64.5	0.0	0.0	0.0	0.0
Short-term capital	-2.3	60.0	28.2	11.0	35.9	60.3	70.5	78.3
Errors and omissions	79.5	85.1	11.9	-8.3	0.0	0.0	0.0	0.0
Overall balance	73.7	129.0	-102.0	-70.4	-40.4	-108.1	-101.3	-86.4
Financing	-73.7	-129.0	102.0	70.3	40.4	15.1	-3.2	-14.9
Change in net foreign assets (- increase)	-81.8	-150.5	76.4	41.0	40.4	15.1	-3.2	-14.9
Of which								
Net use of Fund resources	-3.6	-4.2	-9.7	-5.9	-5.1	-6.4	-7.4	-8.0
Loans	9.0	10.3	5.2	9.5	2.0	0.0	0.0	0.0
Repayments 1/	-12.6	-14.5	-15.0	-15.3	-7.1	-6.4	-7.4	-8.0
Change in external arrears (+ increase)	-21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	29.0	21.5	25.5	29.3	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	93.0	104.5	101.3

Sources: Beninese authorities; and staff estimates and projections.

1/ HIPC relief is netted out from interest and principal due for the period 2004-07.
2/ The entry in 2003 is for the stock of debt operation at the completion point.

Table 7. Benin: Compliance with WAEMU Convergence Criteria, 1999-2003

(In percent, unless otherwise indicated)

	Convergence criterion	1999	2000	2001	2002	2003
Primary criteria						
Basic fiscal balance/GDP 1/	>=0.0	2.8	1.9	0.4	0.1	-1.0
Basic fiscal balance/GDP 2/	>=0.0	2.8	2.2	1.4	1.1	-0.1
Inflation (annual average)	<=3.0	0.3	4.2	4.0	2.4	1.5
Total debt/GDP 3/	<=70.0	56.6	59.6	59.5	50.7	36.8
Nonaccumulation of domestic arrears 4/	<=0.0	-11.3	-15.8	0.0	0.0	0.0
Nonaccumulation of external arrears 4/	<=0.0	-13.3	-14.8	0.0	0.0	0.0
Secondary criteria						
Wages/tax revenue	<=35.0	33.0	32.0	32.6	31.9	33.5
Domestically financed investment/tax revenue	>=20.0	13.9	15.0	22.4	19.3	23.2
Current account deficit, excluding Program grants/GDP	<=5.0	8.7	8.1	7.9	9.2	8.7
Tax revenue/GDP	>=17.0	13.7	14.6	14.2	15.0	15.2

Sources: Beninese authorities; and staff estimates.

1/ The basic fiscal balance is defined as total revenue minus total expenditure, excluding foreign-financed investment.
2/ Basic fiscal balance, excluding the use of enhanced HIPC Initiative resources.
3/ Includes domestic and external debt.
4/ In billions of CFA francs.

Table 8. Benin: External Debt Sustainability Framework, Baseline Scenario, 2000-21 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2003	2004	2005			2003	2004	2005	2006	2007	2008	2003-08 Average	2013	2021	2009-21 Average
External debt (nominal) 1/	58.3	57.3	49.5			35.8	33.3	33.3	32.6	31.8	31.1	33.0	28.1	22.6	26.7
of which: public and publicly guaranteed (PPG)	58.3	57.3	49.5			35.8	33.3	33.3	32.6	31.8	31.1	33.0	28.1	22.6	26.7
Change in external debt (a)	-10.8	-1.1	-7.8			-13.7	-2.6	0.1	-0.8	-0.7	-0.7	-3.1	-0.6	-0.8	-0.7
Identified net debt-creating flows (b)	8.2	2.6	1.7			5.7	6.6	6.4	5.5	4.9	4.8	5.6	5.6	6.3	5.7
Noninterest current account deficit	8.0	6.7	9.0	5.0	2.9	8.4	8.3	8.9	8.6	8.1	8.0	8.4	9.0	9.8	9.1
Deficit in balance of goods and services	11.6	12.5	13.6			15.1	14.3	13.2	13.0	12.9	12.7	13.5	13.4	12.7	13.3
Exports	16.5	15.2	13.2			11.7	11.6	12.6	12.6	12.6	12.8	12.3	13.6	15.9	14.0
Imports	28.1	27.7	26.9			26.8	25.9	25.8	25.6	25.5	25.5	25.8	27.0	28.6	27.3
Net current transfers (negative = inflow)	-5.5	-6.9	-5.1	-5.9	2.5	-4.9	-4.4	-3.6	-3.6	-3.7	-3.7	-4.0	-3.2	-2.6	-3.1
Other current account flows (negative = net inflow)	1.9	1.1	0.5			-1.7	-1.6	-0.7	-0.8	-1.1	-1.1	-1.2	-1.1	-0.3	-1.1
Net FDI (negative = inflow)	-3.3	-1.5	-0.5	-1.0	1.3	-0.9	-0.9	-1.1	-1.4	-1.5	-1.5	-1.2	-2.1	-2.5	-2.2
Endogenous debt dynamics 2/	3.5	-2.6	-6.7			-1.7	-0.8	-1.4	-1.7	-1.8	-1.8	-1.5	-1.3	-1.0	-1.3
Contribution from nominal interest rate	0.0	0.0	0.0			0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.3	0.3	0.3
Contribution from real GDP growth	-4.2	-2.8	-3.0			-1.8	-0.9	-1.6	-1.8	-1.9	-2.0	-1.7	-1.6	-1.3	-1.5
Contribution from price and exchange rate changes	7.6	0.1	-3.7			…	…	…	…	…	…	…	…	…	...
Residual (a)-(b) 3/	-18.9	-3.6	-9.5			-19.4	-9.1	-6.3	-6.3	-5.6	-5.5	-8.7	-6.2	-7.0	-6.3
NPV of external debt	...	...	32.3			18.4	17.5	18.0	18.0	18.0	18.0	18.0	16.7	11.6	15.2
In percent of exports	...	...	243.8			157.5	150.6	143.6	143.2	142.7	140.6	146.4	122.4	72.9	109.6
NPV of PPG external debt	...	...	32.3			18.4	17.5	18.0	18.0	18.0	18.0	18.0	16.7	11.6	15.2
In percent of exports	...	...	243.8			157.5	150.6	143.6	143.2	142.7	140.6	146.4	122.4	72.9	109.6
Debt service-to-exports ratio (after debt relief)	15.7	9.9	9.9			6.6	5.7	5.9	6.1	5.7	5.6	5.9	7.0	6.5	7.0
PPG debt service-to-exports ratio (in percent)	15.7	9.9	9.9			6.6	5.7	5.9	6.1	5.7	5.6	5.9	7.0	6.5	7.0
Total gross financing need (billions of U.S. dollars)	107.2	124.0	229.4			292.5	331.6	375.4	382.0	385.3	414.9	363.6	658.1	1243.5	803.7
Noninterest current account deficit that stabilizes debt ratio	18.8	7.7	16.7			22.1	10.9	8.8	9.4	8.8	8.7	11.5	9.6	10.6	9.8
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.8	5.0	6.0	5.0	0.8	4.8	3.0	5.0	6.0	6.5	6.8	5.4	6.0	6.0	6.0
Effective interest rate (percent) 4/	0.0	0.0	0.0	1.9	1.9	0.3	0.3	0.5	0.5	0.6	0.7	0.5	1.0	1.2	1.1
Growth of exports of G&S (U.S. dollar terms, in percent)	-10.4	3.2	4.2	3.1	14.2	31.5	13.1	7.1	9.6	11.2	9.8	13.7	9.1	8.3	8.8
Growth of imports of G&S (U.S. dollar terms, in percent)	-7.1	3.1	10.1	4.3	17.9	28.2	12.7	6.7	8.4	9.1	8.9	12.3	8.3	8.5	8.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	36.0	35.7	35.8	35.8	36.0	35.8	36.0	36.0	36.0
Memorandum item:															
Nominal GDP (billions of U.S. dollars)	2,277.2	2,385.4	2,703.6			3,481.9	4,052.6	4,339.8	4,749.3	5,184.5	5,647.8	4,576.0	8,270.1	14,887.4	9,945.6

Source: Staff simulations.

1/ Includes public and publicly guaranteed external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments.
4/ Current-year interest payments devided by previous period debt stock.
5/ Historical averages and standard deviations are derived over the past ten years.

Table 9. Benin: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23
(In percent)

	Estimate	Projections														
	2003	2004	2005	2006	2007	2008	2010	2012	2013	2015	2017	2018	2020	2021	2022	2023
	(NPV of debt-to-GDP ratio)															
A. Baseline	18.4	17.5	18.0	18.0	18.0	18.0	17.6	17.1	16.7	15.5	14.2	13.6	12.3	11.6	11.0	10.3
B. Alternative scenarios																
B1. New public sector loans on less favorable terms in 2004-23 1/	18.4	17.5	18.7	19.2	19.7	20.1	20.5	20.7	20.6	19.9	19.0	18.5	17.5	16.9	16.4	15.8
B2. Lower exports	18.4	17.5	18.6	19.2	19.7	20.1	20.7	21.0	20.9	20.4	19.5	19.0	17.9	17.4	16.8	15.6
B3. Higher expenditures	18.4	17.5	18.6	19.2	19.7	20.1	21.5	21.8	21.7	21.0	20.0	19.5	18.3	17.7	17.1	15.9
C. Bound tests																
C1. Real GDP growth at historical average minus one standard deviation in 2004-05	18.4	17.3	18.0	18.0	18.0	17.9	17.5	17.0	16.6	15.5	14.2	13.5	12.2	11.6	10.9	10.3
C2. Export value growth at historical average minus one standard deviation in 2004-05 2/	18.4	18.6	21.2	21.1	20.9	20.7	20.1	19.3	18.7	17.2	15.6	14.8	13.2	12.4	11.7	11.0
C3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2004-05	18.4	23.8	29.9	29.9	29.9	29.8	29.1	28.3	27.7	25.8	23.6	22.5	20.3	19.3	18.2	17.1
C4. Net non-debt-creating flows at historical average minus one standard deviation in 2004-05 3/	18.4	19.0	20.5	20.4	20.2	20.1	19.5	18.7	18.2	16.8	15.3	14.5	13.0	12.2	11.5	10.8
C5. Combination of C1-C4 using one-half standard deviation shocks	18.4	23.6	31.0	30.7	30.4	30.1	29.1	27.8	26.9	24.6	22.2	21.0	18.7	17.6	16.5	15.4
	(NPV of debt-to-exports ratio)															
A. Baseline	157.5	150.6	143.6	143.2	142.7	140.6	133.8	126.8	122.4	111.6	100.0	94.3	83.7	72.9	68.4	64.0
B. Alternative scenarios																
B1. New public sector loans on less favorable terms in 2004-23 1/	157.5	150.6	148.8	152.6	155.9	157.1	156.0	153.5	150.9	143.1	133.6	128.8	119.4	106.3	102.2	97.9
B2. Lower exports	157.5	150.6	152.4	160.5	168.4	169.8	169.8	168.3	165.9	158.7	150.7	146.4	137.6	124.2	120.3	111.7
B3. Higher expenditures	157.5	150.6	148.3	152.2	155.8	157.4	159.4	161.7	159.2	151.5	143.2	138.8	129.9	117.0	113.1	105.1
C. Bound tests																
C1. Real GDP growth at historical average minus one standard deviation in 2004-05	157.5	150.6	143.6	143.2	142.7	140.6	133.8	126.8	122.4	111.6	100.0	94.3	83.7	72.9	68.4	64.0
C2. Export value growth at historical average minus one standard deviation in 2004-05 2/	157.5	185.7	226.8	224.8	219.0	215.3	205.6	192.8	184.4	166.2	146.9	138.3	121.7	114.1	106.6	99.2
C3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2004-05	157.5	150.6	143.6	143.2	142.7	140.6	133.8	126.8	122.4	111.6	100.0	94.3	83.7	72.9	68.4	64.0
C4. Net non-debt-creating flows at historical average minus one standard deviation in 2004-05 3/	157.5	163.1	163.1	161.6	160.2	157.1	148.7	139.2	133.6	120.6	107.1	100.6	88.6	76.8	71.9	67.0
C5. Combination of C1-C4 using one-half standard deviation shocks	157.5	200.9	262.6	259.7	252.3	247.7	235.9	220.0	209.9	188.4	165.9	155.9	136.7	127.9	119.3	110.9
	(Debt service ratio)															
A. Baseline	6.6	5.7	5.9	6.1	5.7	5.6	6.6	6.7	7.0	7.8	7.5	7.5	6.8	6.5	6.3	6.1
B. Alternative scenarios																
B1. New public sector loans on less favorable terms in 2004-23 1/	6.6	5.7	5.9	6.4	6.4	6.5	7.0	7.5	8.0	8.9	8.7	8.7	8.5	8.4	8.3	8.1
B2. Lower exports	6.6	5.7	6.4	6.7	6.4	6.3	7.9	8.5	9.0	10.4	10.7	10.9	10.6	10.4	10.2	10.1
B3. Higher expenditures	6.6	5.7	5.9	6.2	6.0	5.9	7.6	8.2	8.6	10.0	10.3	10.4	10.1	9.8	9.7	9.5
C. Bound tests																
C1. Real GDP growth at historical average minus one standard deviation in 2004-05	8.0	6.7	6.4	6.6	6.3	6.1	7.2	7.3	7.6	8.5	8.2	8.1	7.4	6.5	6.3	6.1
C2. Export value growth at historical average minus one standard deviation in 2004-05 2/	8.0	7.8	9.0	9.7	9.2	8.9	10.3	11.7	11.9	12.9	12.3	12.1	11.0	10.5	10.1	9.7
C3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2004-05	8.0	6.7	6.4	6.6	6.3	6.1	7.2	7.3	7.6	8.5	8.2	8.1	7.4	6.5	6.3	6.1
C4. Net non-debt-creating flows at historical average minus one standard deviation in 2004-05 3/	8.0	6.7	6.8	7.1	6.8	6.6	7.6	8.3	8.6	9.3	8.9	8.7	8.0	7.0	6.8	6.5
C5. Combination of C1-C4 using one-half standard deviation shocks	8.0	8.1	10.0	11.0	10.4	10.0	11.5	13.6	13.8	14.7	13.9	13.7	12.5	11.8	11.4	10.9
Memorandum item:																
Grant element assumed on residual financing (i.e., financing required above baseline) 4/	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3

Source: Staff projections and simulations.

1/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
2/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
3/ Includes official and private transfers and foreign direct investment (FDI).
4/ Applies to all stress scenarios except for B1 (less favorable financing) in which the terms on all new financing are as specified in footnote 1.

Table 10. Benin: Indicators of Fund Credit, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
					Proj.			
Outstanding Fund credit								
In millions of SDRs	64.4	61.1	53.9	49.6	46.1	41.9	37.0	31.7
In billions of CFA francs	59.9	56.7	48.5	40.2	36.6	33.7	29.8	25.5
In percent of quota 2/	104.1	98.8	87.0	80.1	74.5	67.7	59.8	51.3
In percent of GDP	3.7	3.3	2.6	2.0	1.7	1.4	1.2	0.9
In percent of exports of goods and services	24.6	21.8	18.8	14.2	12.4	10.6	8.6	6.6
Debt service to the Fund 1/								
In millions of SDRs	10.3	12.1	11.8	11.4	5.2	4.5	5.2	5.6
In billions of CFA francs	9.5	11.2	10.6	9.3	4.1	3.7	4.2	4.5
In percent of quota	16.6	19.6	19.1	18.5	8.4	7.3	8.5	9.1
In percent of GDP	0.6	0.6	0.6	0.5	0.2	0.2	0.2	0.2
In percent of exports of goods and services	3.9	4.3	4.1	3.3	1.4	1.1	1.2	1.2
In percent of debt service due	21.6	27.1	24.5	24.4	9.9	8.8	10.5	10.5

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

1/ HIPC Initiative relief is netted out from debt service due to the Fund during 2004-07.

Table 11. Benin: Public Expenditure for Health and Education, 2001-03

	2001			2002			2003		
	Budget 1/	Execution	Rate of exec. 2/	Budget	Execution	Rate of exec. 2/	Budget	Execution	Rate of exec. 2/
	(In billions of CFA francs, unless otherwise specified)								
Health	40.8	36.2	88.8	36.4	27.4	75.2	39.5	35.1	88.9
Current outlays	23.5	19.1	81.3	19.7	14.2	72.2	23.2	22.5	96.7
Personnel	6.8	5.4	79.1	6.7	5.9	88.3	7.4	6.8	91.6
Nonpersonnel	16.7	13.7	82.2	13.0	8.3	63.8	15.8	15.6	99.0
Investment program	17.3	17.1	99.0	16.7	13.2	78.8	16.2	12.6	77.8
Domestically financed	7.3	6.3	87.2	8.7	7.5	85.7	8.8	7.3	82.5
Financed from abroad	10.0	10.8	107.5	8.0	5.7	71.3	7.4	5.4	72.2
Education	74.2	71.1	95.8	80.5	68.8	85.4	86.9	79.5	91.4
Current outlays	56.9	53.2	93.5	55.2	55.5	100.5	61.7	65.3	105.9
Personnel	33.5	34.4	102.8	33.8	38.4	113.5	37.1	41.9	112.9
Nonpersonnel	23.4	18.8	80.2	21.4	17.1	79.9	24.6	23.4	95.2
Investment program	17.3	17.9	103.4	25.3	13.3	52.5	25.3	14.2	56.3
Domestically financed	8.1	10.4	128.0	13.4	8.5	63.6	14.6	11.1	75.9
Financed from abroad	9.2	7.5	81.8	11.9	4.8	40.1	10.6	3.1	29.2
	(In percent of GDP)								
Total expenditure 3/	6.3	5.9	…	5.7	5.1	…	6.2	5.7	…
Current outlays	4.4	3.9	…	3.7	3.7	…	4.2	4.3	…
Personnel	2.2	2.2	…	2.0	2.4	…	2.2	2.4	…
Nonpersonnel	2.2	1.8	…	1.7	1.4	…	2.0	1.9	…
Investment program	1.9	1.9	…	2.1	1.4	…	2.0	1.3	…
Domestically financed	0.8	0.9	…	1.1	0.9	…	1.2	0.9	…
Financed from abroad	1.1	1.0	…	1.0	0.6	…	0.9	0.4	…

Sources: Beninese authorities; and staff estimates and projections.

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

Table 12. Benin: Poverty-Reducing Expenditures, 2003 1/
(In billions of CFAF)

	2003								
	Annual budg. allocations 1/	End-March		End-June		End-September		End-December	
		Est.	Exec. rate 2/	Est.	Exec. rate 2/	Est.	Exec. rate 2/	Est.	Exec. rate 2/
Primary education	34.5	6.3	18.3	14.0	40.7	21.9	63.5	35.4	102.5
Personnel	23.2	6.0	25.8	11.3	48.6	18.1	78.3	28.5	123.0
Goods and services	4.4	0.1	1.5	0.5	10.7	1.1	25.4	1.7	37.9
Transfers	2.6	0.3	9.9	1.7	63.7	1.7	65.3	2.6	99.6
Domestically financed investment	4.3	0.0	0.3	0.6	14.3	0.9	21.1	2.5	59.6
Technical education	5.8	0.7	6.9	1.9	19.5	3.2	31.7	5.6	95.6
Health	32.0	3.4	8.7	12.8	32.4	17.2	43.7	25.0	77.9
of which:									
Expansion of basic health services	9.2	0.6	4.7	3.2	23.0	4.5	32.8	7.4	80.0
Administration of the sector	12.5	1.2	9.4	4.8	38.4	6.0	48.0	8.6	68.7
Improvement of health services	8.3	1.0	11.4	4.2	45.8	5.3	58.3	7.1	84.8
Reproductive health services	0.2	0.0	0.4	0.04	1.9	0.1	3.6	0.2	88.9
Priority deseases	1.8	0.3	11.9	0.4	19.5	0.9	38.2	1.8	97.3
Agriculture	13.2	2.3	8.2	4.3	14.9	6.5	22.7	10.9	82.7
Food security	4.7	1.1	9.5	1.9	15.8	2.8	23.8	4.4	93.5
Infrastructures	1.1	0.1	3.8	0.3	10.3	0.4	14.3	0.8	73.4
Natural resources	3.5	0.7	8.9	1.1	13.9	1.8	22.7	3.1	88.1
Agricultural product markets	1.4	0.2	11.0	0.4	23.0	0.5	29.7	0.9	65.3
Administration of the sector	2.6	0.2	5.3	0.6	14.4	0.9	22.6	1.8	69.0
Access to safe water	3.0	0.2	2.9	0.5	6.4	1.0	13.0	2.2	74.9
Environment	1.5	0.2	7.6	0.3	10.0	0.8	29.0	1.5	98.5
Support to urban management	5.7	0.3	1.8	1.8	10.6	3.5	20.1	5.5	96.4
Justice	3.2	0.3	7.4	0.9	23.1	1.3	33.2	2.7	85.1
Literacy	0.03	…	…	…	…	…	…	0.01	43.0
Total poverty-reducing expenditure	99.0	13.2	9.8	34.6	25.7	52.2	38.8	88.8	89.7
Total primary expenditure	326.5	75.2	23.0	150.0	45.9	236.2	72.4	352.7	108.0
Share of poverty-reducing expenditure in primary expenditure (in percent)	30.3	17.5	…	23.1	…	22.1	…	25.2	…

1/ Excludes foreign-financed projects
2/ Estimates in percentage of annual budgetary allocations

Table 13. Benin: Selected Demographic and Social Indicators

Indicator	Sub-Saharan Africa 1/	Latest Single Year 1970-75	1980-85	1990-95	2002 2/
		(In units indicated)			
GNP per capita (U.S. dollars)	480	220	280	350	380
Population					
Total (millions)	659	3.0	4.0	5.5	6.7
Annual growth rate (in percent)	2.5	2.4	3.0	2.8	2.6
Urban population (percent of total)	32.3	21.9	30.8	41.8	43.0
Life expectancy (years)	46.0	46.0	50.0	50.2	53.0
Total fertility rate (births per woman)	5.1	7.0	6.9	6.0	5.4
Total, ages 15-64 (millions)	320.1	1.6	2.0	2.7	3.1
Education		(Percent of school-age population)			
Primary school enrollment ratio (gross)	78.0	50.0	68.0	73.3	78.0
Male	85.0	70.0	90.0	93.2	98.0
Female	72.0	31.0	45.0	53.5	57.0
Secondary school enrollment ratio	26.5	9.0	17.0	15.7	17.0
		(In units indicated)			
Primary school pupil-to-teacher ratio	41.0	53.0	33.0	52.0	53.0
Adult illiteracy rate (in percent of total)					
Population ages 15 and above	37.0	85.8	78.0	68.5	61.0
Female	50.0	92.3	87.4	80.9	76.0
Health					
Infant mortality rate (per 1,000 live births)	92.0	136.0	119.0	94.9	87.0
Access to safe water (percentage of population)	49.0	34.0	…	54.0	63.0
Urban	81.0	83.0	…	…	74.0
Rural	37.0	20.0	…	…	55.0
Food production index (1989-91=100)	109.4	49.5	79.9	130.4	126.0
Child malnutrition (percentage of children under age 5)	28.4	...	...	24.0	...

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

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

Table 14: Benin: Millennium Development Goals

	1990	1995	2001	2002	2015 Target	Likelihood of Reaching Target
Goal 1. Eradicate extreme poverty and hunger						
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						Likely
- Population below US$1 a day (percent)	57.0	...	...	43.0	28.0	
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger						Likely
- Prevalence of child malnutrition (percent of children under 5)	35.0	29.2	23.0	...	18.0	
- Population below minimum level of dietary energy consumption (percent)	19.0	...	13.0	...	10.0	
Goal 2. Achieve universal primary education						
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling						Likely for boys
- Net primary enrollment ratio (percent of relevant age group)	48.8	59.7	70.3	...	100.0	
- Percentage of cohort reaching grade 5	55.0	60.9	84.0	...	...	
- Youth literacy rate (percent age 15-24)	40.4	47.0	54.3	55.5	...	
Goal 3. Promote gender equality and empower women						
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						Unlikely
- Ratio of girls to boys in primary and secondary education (percent)	69.0	...	...	75.0	100.0	
- Ratio of young literate females to males (percent ages 15-24)	43.6	47.3	52.0	52.9	...	
- Proportion of seats held by women in the national parliament (percent)	3.0	7.0	6.0	6.0	...	
Goal 4. Reduce child mortality						
Target 5: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate						Unlikely
- Under-five mortality rate (per 1,000)	185.0	170.0	158.0	...	61.7	
- Infant mortality rate (per 1,000 live births)	111.0	104.0	94.0	92.0	...	
- Immunization against measles (percent of children under 12-months)	79.0	65.0	65.0	...	...	
Goal 5. Improve maternal health						
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.						Unlikely
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	547.0	...	...	474.0	137.0	
Goal 6. Combat HIV/AIDS, malaria, and other diseases						
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						Likely
- HIV/AIDS prevalence	0.3	3.2	4.1	...	<6.0	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						Likely
- Prevalence of death associated with malaria (per 10,000)	21.0	11.0	...	6.8	12.0	
Goal 7. Ensure environmental sustainability						
Target 9: Halve by 2015 proportion of people without access to safe drinking water						Likely
- Population without access to improved water source (in %)	54.0	...	59.0	61.0	27.0	

Sources: Benin's authorities and World Bank estimates.

Table 15. Benin: Indicative Targets for 2004

(In billions of CFA francs, unless otherwise indicated)

	2004				
	End-March		End-June	End-September	End-Decmber
	Prog.	Actual			
Indicative targets					
Net bank credit to the government	-34.8	-19.1	-9.5	-23.7	-23.9
Nonaccumulation of new external payments arrears by the central government	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government	0.0	0.0	0.0	0.0	0.0
Short-term external debt with a maturity of less than one year (stock)	0.0	0.0	0.0	0.0	0.0
Wage bill 1/	28.4	29.5	58.8	86.4	114.0
Poverty-reducing expenditure 1/	20.4	6.8	17.8	59.9	102.0
Total government revenue 1/ 2/	92.2	76.2	156.3	244.3	340.4
Primary government expenditure 1/ 3/	88.5	64.4	148.8	250.9	354.4
Memorandum items:					
Program grants and loans 1/	0.0	0.0	0.0	31.7	40.0
Target for spending on projects financed by enhanced HIPC Initiative 1/	4.8	0.4	3.4	11.2	19.1

1/ Cumulative amounts since end-December 2003.
2/ Excluding grants.
3/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

Table 16. Benin: Use of Enhanced HIPC Initiative Funds, 2000-04

(In millions of CFA francs)

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

Sources: Benin's authorities

Benin: Financial Sector Developments and Issues

The Beninese financial system consists of eight commercial banks (which account for about 90 percent of the total financial sector assets), two leasing companies, eight insurance companies, and over 100 formal microfinance institutions. There is also a very small postal bank and two state-run pension schemes. Domestic securities markets are virtually nonexistent; very few Beninese companies use the securities regional market in Abidjan.

The banking sector

- **A banking sector based on private sector ownership** was established following the collapse of the state-owned banks at the end of 1980s. The new banks quickly gained public's confidence; bank deposits and credit increased rapidly, from 4 percent and 0.2 percent of GDP in 1989 to 20 percent and 14.5 percent of GDP in 2003, respectively.

- **The Beninese banking sector is concentrated**; the largest three banks account for over three fourths of total deposits as well as credits. However, competition is increasing as new banks are entering the market. All banks except one are privately owned, and the state's shares in the remaining bank are being sold. Foreign ownership is prominent.

- **Profitability has improved in recent years**. Over the period 2000-03, return on equity increased from 10.6 percent to 36.7 percent, while return on assets rose from 0.4 percent to 2.1 percent. All banks, except for two small ones, posted profits in 2003. Average operating efficiency is about 50 percent, in line with international standards. This partly reflects high intermediation margins (about 10 percent).

- **Compliance with prudential norms is broadly satisfactory**, except for the risk concentration, reflecting the lack of diversification of the economy. The two largest banks, accounting for about two-thirds of bank deposits and credit, comply with all prudential norms. The ratio of nonperforming loans (5.4 percent) is among the lowest in the region.

- **Banking supervision** is conducted by the regional Banking Commission, which is largely free from political interference. The Commission undertakes regular on- and off-site inspections and has the prerogative to put a bank under temporary administration (ultimate decision power is with the government) or close monitoring. This prerogative has been used actively; at present, two banks are under temporary administration.

Benin: Commercial Banks' Compliance with Prudential Norms

Prudential Ratio	Norm	Number of Observing Banks (out of total)		
		December 2001	December 2002	March 2004
Capital	> CFAF 1 billion	6/6	6/6	8/8
Net equity	> CFAF 1 billion	4/6	6/6	7/8
Capital adequacy ratio	> 8 %	3/6	4/6	6/8
Liquidity coefficient	> 75 %	4/6	4/6	5/8
Coverage of medium-term liabilities	> 75 %	2/6	2/6	7/8
Connected lending / effective capital	< 20 %	2/6	5/6	6/8
Risk concentration (total)	< 8 times equity	...	4/6	6/8
Risk concentration (individual)	< 75% of equity	...	2/6	4/8

Source: BCEAO.

Other financial institutions

- The microfinance sector has expanded rapidly in the last decade. It complements the banking sector, especially in deposit collection, as the distribution of bank branches is highly limited, and there are minimum balances for opening bank deposits. Deposits collected increased from the equivalent of 3 percent of bank deposits in 1993 (0.7 percent of GDP) to 9 percent (1.8 percent of GDP) in 2003. During the same period, microfinance credits increased from the equivalent of 5.5 percent of total bank credits (0.3 percent of GDP) to 22 percent (3.3 percent of GDP). Both government authorities and the BCEAO are involved in the supervision of microfinance institutions.

- The insurance sector has also expanded rapidly since the mid-1990s but is still not well developed; while total insurance premia collected tripled from 1995 to 2002, they still represent less than 1 percent of GDP. Foreigners hold majority shares of two and minority shares of another two companies out of a total of eight. The insurance market is concentrated; the three largest companies represent about two-thirds of the market. The supervision responsibility lies with a regional body.

- The pension system consists of two institutions. The Benin National Pension Fund (FNRB), which provides services to public sector employees, is a pay-as-you-go system. It has experienced repeated deficits (about 0.5 percent of GDP in 2003). Benin Social Security Office (OBSS), which provides services to private sector employees, is a funded system with financial resources equivalent to 2 percent of GDP and annual benefit payments of about 0.3 percent of GDP. Three quarters of OBSS's financial resources are invested in bank accounts (term deposits), and the rest in securities.

Developmental issues

- **Low financial intermediation:** Benin's financial deepening indicators remain low, as in other WAEMU countries (the ratio of broad money to GDP averaged 29 percent in 2000-2003). The weak performance of the judicial system and legal enforcement, and the weak land registry system hamper the development of financial intermediation.

- **Diversification of the financial sector:** The development of the microfinance sector and the establishment in 2004 of a housing bank are contributing to the diversification of the financial sector.[22] However, the underdeveloped state of the securities markets, both at the national and the regional level, hampers provision of term finance to private enterprises, and makes the domestic placement of funds collected by the insurance sector and the pension system difficult. It also constrains the development of the interbank market.

- **Soundness of the banking sector:** Most banks do not comply with the risk concentration norms systematically because of their high exposure to the cotton sector. This is likely to remain until the diversification of the economy is achieved. In addition, two banks under temporary administration do not comply with the capital adequacy ratio. The authorities are of the opinion that with the recent introduction of two new banks, the concentration in the banking sector will diminish in the medium run.

[22] The government will have a minority share of 10 percent in the housing bank. The budget for 2004 includes a provision of CFAF 1 billion (0.2 percent of total government expenditure) to that effect.

Benin: Relations with the Fund

(As of June 30, 2004)

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

II. General Resources Account:	**SDR million**	**% of quota**
Quota	61.90	100.00
Fund holdings of currency	59.72	96.48
Reserve position in the Fund	2.19	3.53

III. SDR Department	**SDR million**	**% allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.09	0.57

IV. Outstanding Purchases and Loans:	**SDR million**	**% quota**
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction Growth Facility (PRGF) Arrangements	46.93	75.82

V. Latest Financial Arrangements:

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

VI. Projected Payments to Fund (without HIPC Initiative Assistance)
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	3.99	5.98	5.93	5.33	5.64
Charges/interest	0.19	0.36	0.33	0.30	0.28
Total	4.18	6.34	6.26	5.64	5.92

Projected Payments to Fund (with Board-approved HIPC Initiative Assistance)
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	2.69	4.51	5.01	4.41	5.64
Charges/interest	0.19	0.36	0.33	0.30	0.28
Total	2.89	4.87	5.34	4.72	5.92

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC Initiative assistance	
Decision point date	Jul 17, 2000
Assistance committed (net presentation value terms)	End-1998
Total assistance (US$ million)	265.00
Of which: Fund assistance (US$ million)	24.30
(SDR equivalent in millions)	18.40
Completion point date	March 2003

Delivery of Fund assistance (SDR million)

Amount disbursed	18.40
Interim assistance	11.04
Completion point	7.36
Additional disbursement of interest income	1.66
Total disbursement	20.06

VIII. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the West African states, which includes Benin. An on-site safeguards assessment of the BCEAO completed on July 25, 2001 proposed specific remedies to alleviate vulnerabilities that were identified by the staff. The following specific understandings were subsequently reached regarding the key remedies:

- **Financial reporting framework.** The Fund staff recommended that the BCEAO formally adopt international accounting standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the BCEAO would strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, as adopted internationally by other central banks.

- **Internal controls system.** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), the BCEAO staff would propose to their Board of Directors that it adopt a resolution whereby the external auditor would be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

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

IX. Exchange Arrangement:

Benin is a member of the West African Economic and Monetary Union (WAEMU). 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, was pegged to the French franc at the rate of CFAF 1 = F 0.02 until January 12, 1994 when the CFA franc was devalued to CFAF 1 = F 0.01. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of EUR 1 = CFAF 655.957. As of June 30, 2004, the rate of the CFA franc in terms of the SDR was SDR 1= CFAF 790.01.

X. Article IV Consultations:

The 2002 Article IV consultation discussions were held in Cotonou during March 11-22. The Executive Board discussed the staff report (Country Report 02/158) and concluded the consultation on July 15, 2002.

XI. ROSC Assessment:

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be urgently taken to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report 02/217).

XII. Technical Assistance:

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

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

XIII. Resident Representative:

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

Benin: Relations with the World Bank Group

Partnership in Benin's development strategy

1. Benin's poverty reduction strategy paper (PRSP), finalized in December 2002, was discussed at the Bank and Fund Boards in March 2003. The PRSP provides a framework for aligning donor assistance programs, including those of the Bank and the Fund, with the country's poverty reduction efforts.

2. The IMF has taken the lead in helping Benin maintain macroeconomic stability. In that context, the three-year Poverty Reduction and Growth Facility (PRGF) arrangement, which was approved in July 2000 and expired in March 2004, addressed issues related to fiscal consolidation and structural reforms that are key to maintaining macroeconomic stability and fostering growth. The PRGF's structural conditionality focused on the following areas: public expenditure management, tax administration, civil service reform, and the privatization program.

3. Public expenditure management reform has been an important focus of the Bank's assistance program. In close collaboration with the Fund and other donors, the Bank has provided technical and financial assistance to the government's reform efforts in this area. The Bank has also been in the lead in helping Benin strengthen the provision of basic social services, most importantly in the education and health sectors, pursuing a divestiture program in the utility and infrastructure sectors, and enhancing the competitiveness of the cotton sector.

IMF-World Bank collaboration in specific areas

4. Common objectives and joint support for Benin's PRSP and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) processes have increased collaboration between the Fund and Bank in recent years. The Bank and Fund teams are closely coordinating their policy advice to the authorities. There is also close coordination in the determination of structural conditionality. However, the Bank's strategic shift toward programmatic lending, as outlined in the 2003 Country Assistance Strategy (CAS), has an important effect on the Bank's approach toward conditionality: the Bank is increasingly moving toward an ex post assessment of progress and is modulating its financial support to the pace of reform implementation.

5. In general, the Bank is leading the policy dialogue on key structural aspects of the reform program, with a strong focus on public expenditure management. The Fund is in the lead in the policy dialogue on macroeconomic issues, particularly fiscal elements of the reform. As described below, there are several areas in Benin's reform program in which the Bank and Fund are sharing the lead in supporting the authorities, and others in which one or the other institution is in the lead.

Areas in which the Bank leads

6. **Divestiture program and private sector development**. The Bank has supported Benin's program for the divestiture of public enterprises through the Private Sector Development Project and through the now-closed Transport Sector Project. The remaining enterprises to be privatized include the cotton parastatal, SONAPRA, and most public utilities: the telecommunications company (OPT), the water and electricity distribution company (SBEE), and the Autonomous Port of Cotonou (PAC). Assistance for the privatization of the OPT is provided through the Private Sector Development Project. The Bank supports the privatization of the electricity branch of the SBEE through the Energy Services Delivery Project which was approved by the Bank's Board on July 6, 2004. Successful completion of this privatization is a condition for moving to the second phase of this project. The privatization of SONAPRA's ginning mills is supported by the cotton sector project. The Transportation Sector Project assisted the government in designing a strategy to involve the private sector in the management of the PAC. The Fund is involved in policy dialogue on these operations, given the importance of the divestiture program to macroeconomic stability and growth.

7. **Social sector reforms.** Improving access to basic social services is one of the four main strategic pillars of Benin's PRSP, and the health and basic education sectors are among the priority sectors that have received increased budget allocations in the medium term expenditure framework (MTEF). The Bank supported reform programs in these sectors through investment projects that were closed in the past three years. In line with the CAS discussed at the Bank's Board on July 3, 2003, the Bank is continuing to work closely with the government on enhancing access to, and quality of, education and health care services through policy dialogue and financial and technical assistance in the context of the Poverty Reduction Support Credits (PRSCs). A number of key policy measures in these two sectors have been implemented as conditions for reaching in March 2003 the enhanced HIPC Initiative completion point, and the First PRSC which was presented to the Bank's Board in March 2004. The Bank is also playing a lead role in support of a multisector response to the HIV/AIDS pandemic, based on the government's comprehensive strategic framework covering 2000-05, adopted in December 2000. A Bank HIV/AIDS project was approved in January 2002.

8. **Poverty monitoring.** The PRSP presents an action plan to establish a reliable database for measuring income poverty in 2003 using a revised methodology. The Bank is providing technical support for the implementation of this action plan and for other efforts aimed at understanding the determinants of poverty in Benin, such as the poverty and social impact analysis (PSIA) of cotton sector reform, which is being prepared by IDA in collaboration with the government, and the Poverty Assessment (PA), which was released in June 2004.

9. The PSIA will be completed in the second half of 2004, and the Poverty Assessment will be disseminated in conjunction with the PRSP and with the assistance of the Bank by end-2004. The Bank is also advising the authorities, in the context of the implementation of

the PRSP, on strengthening institutional arrangements for monitoring and evaluating poverty in the country.

10. **Cotton sector reforms**. Cotton is Benin's only major cash crop, and the sector has accounted in recent years for around 80 percent of its export earnings. The cotton sector is a key focus of the Bank's assistance program. A comprehensive reform of this sector, aimed at liberalizing and strengthening the capacity of producers has been undertaken since the early 1990s, with the support of the Bank and bilateral donors. Important progress has been achieved so far, such as by eliminating the monopsony of the state enterprise (SONAPRA) in cotton marketing, liberalizing input supply, and opening the sector to private ginners. In 2002, the Bank Board approved a Cotton Sector Reform Project, which is supporting the consolidation of the reforms. These include the recently launched process for privatization of the SONAPRA as well as the strengthening of the capacities of producers' associations and the new private institutions managing the sector. The Bank is also helping the government to define the regulatory framework for the sector which would be put in place by end-October 2004, before the start of the 2004/05 cotton marketing season. As Benin's PRSP indicates, there has been an apparent increase in rural poverty, including in cotton-producing areas, in spite of sustained economic growth in the past years.

Areas in which the Bank and Fund share the lead

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

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

Accountability Assessment (CFAA), and the governance and anti-corruption survey. The PRSC-1 supports a comprehensive action plan for public procurement reform that addresses main weaknesses identified in the 1999 CPAR.

13. **Poverty reduction strategy.** Together with other external development partners, the Bank and Fund have jointly provided assistance to the government in the preparation of Benin's PRSP. The PRSP was discussed at Bank and Fund Boards in March 2003, together with a joint staff assessment prepared by Bank and Fund staffs. Both institutions will continue to jointly advise the authorities on the refinement, implementation, monitoring, and evaluation of the strategy. Bank and Fund staffs will also help the government finalize its first annual progress report of the poverty reduction strategy by November 2004. The Bank supported the government to prepare a detailed action plan for the dissemination of the PRSP. The consultation program is designed to reach key line ministries within the government, the National Assembly as well as the civil society and the private sector

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

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

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

Areas in which the Fund leads

17. **Macroeconomic stability.** The medium-term objective of Benin's macroeconomic program is to achieve strong economic growth and reduce poverty, while maintaining financial stability. The Fund has been supporting this program through its dialogue on macroeconomic policy, technical assistance, and, until March 2004, the PRGF framework.

18. **Tax and custom administration reforms.** To enhance Benin's fiscal revenues, the Fund has provided technical assistance to help the authorities prepare and update action plans aimed at improving the performance of the tax and customs administrations as well as broadening the tax base.

World Bank strategy

19. The Bank prepared a new Country Assistance Strategy (CAS), which was discussed at its Board on July 3, 2003. The overriding objective of the Bank's assistance in the years ahead is to help Benin reverse the recent trends of limited or no poverty reduction amid relatively robust growth. Progress in reducing poverty and attaining the Millennium Development Goals (MDGs) requires further deepening of cotton sector reforms, strengthening efforts toward diversifying the economy, making tangible progress in the social sectors, building effective and responsive public institutions, promoting gender equality, and strengthening collaboration with the private sector and civil society. The CAS describes a focused program of financial assistance and nonlending services as the Bank's contribution to addressing these challenges. It supports the implementation and further refinement of the PRSP, and it is aligned to the four PRSP pillars.[23]

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

---

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

the Bank will continue its support of Benin's public expenditure reform through financial and technical support. Annual single-tranche PRSCs are envisaged to become a key vehicle for Bank support to the country. A first PRSC was presented to the Bank's Board in March 2004, and the appraisal of the second PRSC is scheduled for September 2004.

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

Benin: Status of World Bank Portfolio
(In million of U.S. dollars, as of July 13, 2004)

	Effectiveness Date	Original Principal (IDA)	Disbursed (IDA)
First Decentralized Cities Management	3/28/00	25.5	23.6
Labor Force Development	3/13/01	5.0	2.8
Private Sector	8/31/00	30.4	18.0
Cotton Sector Reform	9/12/02	18.0	4.0
HIV/AIDS Multisector	7/17/02	23.0	9.3
PRSC-1	8/16/04	20.0	0
Total		121.9	57.7

22. As of July 13, 2003, the Bank lending portfolio consisted of six operations, with a net commitment of US$121.9 million and an undisbursed balance of US$64.2 million (see table above). The CAS has a determined lending volume for the period FY04 - FY06 amounting to US$200 million. As discussed previously, a large part of IDA financing (US$85 million) will be channeled through PRSCs. As indicated in the CAS, a key objective of the Bank's nonlending program is to help the government strengthen its sector-wide expenditure programs as a basis for consolidating programmatic support and building the capacity required for preparing, implementing, and monitoring these programs.

Prepared by World Bank Staff. Questions may be asked to Mr. Pedro Alba, Country Director for Benin, ext. 82246; or Ms. Claude Leroy-Thémèze, Country Economist for Benin at 5390+316.

Benin: Statistical Issues

(As of end-June, 2004)

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

Real sector

2. Beninese national statistics agencies were represented at two GDDS seminars, one in Yaoundé in October 1998 and another in Bamako in April 2001. As a follow-up to the GDDS workshop in Bamako, significant initiatives have been taken in order to upgrade Benin's national income accounting system, which is based on 1968 System of National Accounts (SNA 1968). Benin also participates in WAEMU's harmonization of statistical methodologies through the multilateral surveillance process, currently seeking regional improvements in the area of national accounts. In 2003, the National Statistics Institute (INSAE) undertook the necessary steps to change the base year for the accounting of the agricultural output and to include the amortization in the public administration accounts. Under the GDDS project for the AFRITAC West countries, a statistical register and an industrial production index are being developed, and a series of missions are scheduled for the 1993 SNA implementation.

3. Starting with January 1998, Benin has been producing the WAEMU harmonized consumer price index (CPI), in compliance with WAEMU standards.

Public finances

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

Monetary statistics

5. Benin's monetary statistics are compiled and disseminated by the regional Central Bank of West African States (BCEAO). The BCEAO has experienced difficulties in estimating currency in circulation for the individual member countries, partly because of delays in processing cash in its vaults. Currency notes held in the vault are subtracted from currency in circulation, even though the former contains a large proportion of notes from other WAEMU countries. Difficulties in the sorting out of currency notes have persisted. The BCEAO intends to resolve the issue by end-2004.

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

Balance of payments

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

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

9. Regarding trade data, the ASYCUDA[24] customs computer system was upgraded in 1999, and its installation in all main border customs houses is being completed; this should allow for a better monitoring of import data and improve the coverage of informal trade, especially with Nigeria.

---

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

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

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

Poverty data

12. As explained in the joint staff assessment Country Report 03/111 of the poverty reduction strategy paper (PRSP), major methodological weaknesses remain regarding poverty data. In particular, the methodology used in the household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of Benin into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities are implementing an action plan to address these methodological issues.

External debt

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

Benin: Core Statistical Indicators
(As of July 30, 2004)

	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	03/04	03/04	03/04	03/04	06/04	05/04	12/03	12/03	03/04	2003	2003
Date received	Current	05/24/04	05/24/04	05/24/04	05/24/04	07/06/04	07/04	06/04	06/04	06/04	06/04	06/04
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Monthly
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Monthly	Annually	Monthly
Source of update 1/	EIS/FIN	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Planning	Ministry of Planning	BCEAO	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	Staff	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	No	No	2/	2/	2/	2/	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	Annually

1/ EIS/FIN=IMF, Economic Information System, and Finance Department; BCEAO=Central Bank of West African States.
2/ Preliminary data for staff use only; actual data unrestricted.

Statement by the IMF Staff Representative
October 6, 2004

This statement provides information that has become available since the staff report was issued. The new information does not alter the thrust of the staff appraisal.

1. **Fiscal data at end-June 2004 indicate that the fiscal situation is broadly on track** (Table 1). All indicative targets for end-June 2004 were met, with the exception of the target for the wage bill, which was slightly exceeded (by 2 percent). In particular, both revenue and poverty-reducing outlays were higher than projected at the time of the consultation mission.

2. **Reflecting the general weakness in economic activity and the tightening of monetary policy, credit growth slowed down during the first five months of 2004**. At end-May 2004, credit to the nongovernment sector had increased by 12 percent on a 12-month basis, compared to 33 percent at end-2003. In parallel, the ratio of non performing loans of commercial banks increased from 5 percent at end-2003 to 6 percent at end-May 2004. Inflation remained low, with the consumer price index increasing by 1.1 percent in the twelve-month period ending July 2004.

3. **The authorities have started implementing budgetary cuts as planned (CFAF 30 billion, equivalent to 1.4 percent of GDP) to compensate for the shortfall in revenue (with respect to budgeted levels), and thus limit this year's fiscal deficit to 5½ percent of GDP**. Internal government discussions on the identification of the budget cuts were concluded in August. Budgetary allocations for domestically financed capital expenditure were reduced by CFAF 27.6 billion and for current spending by CFAF 2.4 billion.

4. **The privatization process of the four ginning mills of SONAPRA has reached its final stage.** The government has recently accepted the highest offers received for three mills through a competitive bidding process; the transfer of these mills to the qualified bidders is envisaged to be completed by end-October 2004. Regarding the fourth ginning mill, some delays have been incurred because the highest bidder was unable to provide sufficient financing guarantees; however, the authorities are confident that the sale of the mill could be completed in the coming weeks.

Table 1. Benin: Indicative Targets for 2004

(In billions of CFA francs, unless otherwise indicated)

	2004					
	End-March		End-June		End-September	End-December
	Target	Actual	Target	Actual		
Indicative targets						
Net bank credit to the government	-34.8	-19.1	-9.5	-17.4	-23.7	-23.9
Nonaccumulation of new external payments arrears by the central government	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt with a maturity of less than one year (stock)	0.0	0.0	0.0	0.0	0.0	0.0
Wage bill 1/	28.4	29.5	58.8	60.2	86.4	114.0
Poverty-reducing expenditure 1/	20.4	6.8	17.8	27.8	59.9	102.0
Total government revenue 1/ 2/	92.2	76.2	156.3	162.8	244.3	340.4
Primary government expenditure 1/ 3/	88.5	64.4	148.8	148.7	250.9	354.4
Memorandum items:						
Program grants and loans 1/	0.0	0.0	0.0	0.0	31.7	40.0
Target for spending on projects financed by enhanced HIPC Initiative 1/	4.8	0.4	3.4	2.0	11.2	19.1

1/ Cumulative amounts since end-December 2003.
2/ Excluding grants.
3/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No.04/127
FOR IMMEDIATE RELEASE
November 12, 2004

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

IMF Concludes 2004 Article IV Consultation with Benin

On October 6 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Benin.[1]

Background

Benin's economic performance over the period 2001-03 was strong. Real GDP growth averaged 5.3 percent, driven by growth in the cotton and services sectors. Inflation was low, averaging 2.6 percent per year. The external current deficit, which increased in 2002 owing to the unexpected drop in the world price of cotton, narrowed in 2003 as terms of trade improved. The real effective exchange rate, however, appreciated about 4 percent on average per year since end-2000, owing mainly to the decline of the U.S. dollar against the euro, to which the CFA franc is pegged.

Overall fiscal performance over the period was satisfactory. Revenue collection strengthened, mostly reflecting improvement in tax administration, although weaknesses in customs administration remained. Expenditures were kept in check; however, spending for health and education, as well as government investment, remained broadly below targets. Efforts were made to strengthen public expenditure management, particularly by putting in place an integrated computerized expenditure management system and a mechanism for tracking poverty-reducing expenditure.

A prudent monetary policy, conducted at the regional level by the Central Bank for West African States (BCEAO), helped maintain confidence in the currency and keep inflation low during the period. Following a strong expansion during 1998-2001, broad money contracted in 2002 and remained stable in 2003, largely reflecting developments in the balance of payments. In response to the rapid expansion of bank credit to the private sector in 2002-03,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

the BCEAO increased the reserve requirement in February 2004 from 9 to 13 percent. The financial health of the banking sector has continued to be sound.

Progress in the structural area was mixed. The liberalization of the cotton sector was pursued, mainly by undertaking the privatization of the cotton parastatal, SONAPRA, and assisting sector stakeholders establish an autonomous agency (CSPR) for managing the commercialization of seed cotton and settling input credit. However, the privatization of SONAPRA incurred delays and was not completed by mid-June 2004 as scheduled. Furthermore, the CSPR experienced cash flow problems, stemming from the sales of inputs conducted outside the legal framework established under the reform of the sector. Progress in other areas was also slow. In particular, the implementation of the divestiture program of public utilities and the Port of Cotonou did not progress significantly, and the civil service reform stalled due to strong opposition from trade unions and the parliament.

Benin's sound macroeconomic policies over the period helped it reach the completion point under the enhanced HIPC Initiative in March 2003. Debt relief obtained under the initiative was critical in reducing the debt-to-export ratio to 157.5 percent at the completion point; the debt ratio is expected to decline further to below the threshold of 150 percent from 2005 onward.

Sustained economic growth over the last ten years allowed Benin's per capita income to rise and most social indicators to improve steadily. However, as indicated in the poverty reduction strategy paper (PRSP) completed by the authorities in December 2002, these achievements did not translate into significant progress in poverty reduction. Against this background, the PRSP presents the authorities' objectives and priority measures for consolidating macroeconomic stability, reducing poverty, and making progress towards reaching the Millennium Development Goals (MDGs).

Macroeconomic performance since the beginning of 2004 has suffered from a poor cotton crop and the tightening of import restrictions by Nigeria. In the circumstances, the target for economic growth this year has been reduced from 6 percent in the original PRSP to 3 percent. The external current account deficit is expected to widen by ½ percentage points of GDP, owing mostly to lower-than-expected export of cotton and re export to Nigeria. To compensate for the shortfall in government revenue arising from weaker-than-envisaged activity in 2004, the authorities decided to strengthen tax and customs administrations and cut total expenditure by 1.4 percent of GDP, while protecting priority spending to the extent possible.

As part of the Article IV consultation, an assessment of the Fund's longer-term program engagement in Benin was prepared by the staff and discussed with the authorities.[2] The assessment concludes that, since 1993, Benin has made major progress in macroeconomic stabilization. It highlights that the diversification of the economy from cotton production has remained elusive. It underscores the need for Benin to increase the share of poverty-reducing expenditures in government spending, to accelerate structural reforms to raise productivity and improve service delivery, and to strengthen the judiciary system.

---

[2] Such assessments are required for members with longer-term program engagement. Benin has had arrangements with the Fund almost continuously since 1989, including a Structural Adjustment Facility arrangement (1989-92), two Enhanced Structural Adjustment Facility arrangements (1993-96 and 1996-99), and a Poverty Reduction Growth Facility arrangement (2000-03).

Executive Board Assessment

Executive Directors commended Benin's considerable progress toward macroeconomic stabilization over the past decade, which has helped sustain robust economic growth and placed Benin among the better-performing countries of the West African Economic and Monetary Union. Directors noted that Benin's strong economic growth and low inflation during 2001-03 continued to be underpinned by a broadly appropriate stance of macroeconomic policies. Directors stressed, however, that greater efforts are needed to reverse the decline in Benin's external competitiveness and to lower the economy's vulnerability to external shocks. In this connection, they called for more determined implementation of structural reforms, especially with respect to the cotton sector, privatization and private sector development, the civil service, and governance.

Directors noted that economic performance in 2004 has been adversely affected by a poor cotton crop and an intensification of import restrictions from a major trading partner, which has contributed to a revenue shortfall. They commended the planned introduction of revenue and expenditure measures aimed at limiting the deterioration of the fiscal position, while emphasizing that further measures may be necessary if weaknesses in revenue collection were to continue. Directors also encouraged the authorities to push ahead with their plans to strengthen the institutions in charge of seed cotton and input commercialization, and to pursue discussions with Nigeria to resolve outstanding trade issues.

Directors endorsed the authorities' revised medium-term macroeconomic targets, which they found to be in line with the PRSP's overall objective of raising economic growth in order to reduce poverty and achieve the Millennium Development Goals. They stressed that achievement of this objective will require an acceleration of structural reforms and the continuation of prudent macroeconomic policies. Directors commended the authorities' efforts to strengthen the PRSP, and encouraged rapid completion of the first annual progress report on the implementation of the poverty reduction strategy. Directors welcomed the regular policy dialogue that the authorities have initiated with the donor community, which is an important step toward increased donor harmonization. While calling for the continued involvement of the donor community in Benin's development effort—including through the provision of appropriate technical assistance—Directors emphasized that the authorities need to address the weak implementation capacity that hampers the execution of social expenditures and undermines the potential benefits that could accrue to Benin from higher aid inflows.

Directors called for continued efforts in the medium term to boost revenue collection and increase the level and quality of poverty-reducing spending, while curbing nonpriority expenditure. In this regard, they urged the authorities to step up the implementation of the action plans to improve tax and customs administrations. They also underscored the need to ensure that budgetary allocations reflect PRSP priorities, to refrain from granting further wage increases before the introduction of a new compensation system, and to limit wasteful spending on public utilities. Directors stressed that public expenditure management should be strengthened so as to improve the monitoring of budget execution, streamline budget procedures, and enhance transparency and the tracking of poverty-reducing outlays. Directors encouraged the authorities to continue and deepen the decentralization process, while ensuring that it does not weaken central government accounts and that expenditure management at the local level is strengthened.

Directors emphasized the importance of accelerating structural reforms to make the economy more competitive and improve the delivery of services to the population. They urged the authorities to establish a credible agenda for the divestiture of public utilities, to adopt and implement a new administrative and civil service management reform, and to rapidly involve the private sector in the management of the Port of Cotonou. They also encouraged the authorities to start preparing the next steps of the cotton sector reform to ensure a transparent and successful transition to a fully competitive system. Directors also stressed the need to improve the business environment through determined implementation of the strategy to fight corruption, the strengthening of the judiciary system, and the enhancement of governance and transparency at the customs department. They emphasized that these reforms are essential to improve Benin's competitiveness in the context of the fixed exchange rate.

Directors noted Benin's high dependence on cotton exports and on trade with Nigeria, and encouraged the authorities to intensify their efforts to promote export diversification while maintaining a liberal trade and exchange system. At the same time, it was noted that Benin's poverty reduction efforts would benefit greatly from increased access to industrial countries' markets. Directors welcomed the conclusion of the debt sustainability analysis that Benin's external debt remains sustainable, and urged the authorities to take the necessary action to keep the external debt on a sustainable path, including by pursuing a prudent debt-management policy.

Directors welcomed Benin's commitment to strengthening the financial sector. They encouraged the continued efforts to ensure compliance with the regional banking commission's prudential ratios and to deepen financial intermediation, including through the strengthening of the legal and judicial system and addressing land titling issues.

Directors also welcomed the authorities' support for the rehabilitation of microfinance institutions and their commitment to intensifying the supervision of this sector.

Directors welcomed the candid exchange of views between Fund staff and the authorities regarding the ex post assessment (EPA) of Benin's longer-term engagement with the Fund. They concurred that the EPA provides useful lessons for future program design and implementation.

Directors agreed that Benin's prolonged use of Fund resources reflected the extensive and complex nature of the reforms required to reinforce the foundations for sustained private-sector-led growth and poverty reduction. They considered that Fund-supported programs since 1993 had appropriately focused on economic and financial stabilization, and on structural reforms essential to liberalize the economy and raise growth. Directors agreed that the Fund's involvement has helped the authorities build capacity, particularly in tax administration, and mobilize concessional resources from the international community. They expressed concern, however, that there has not been significant progress in poverty reduction. They also noted that while initial efforts to liberalize the economy and reduce government intervention were successful, further reforms, including the divestiture program for public utilities and the civil service reform, incurred protracted delays.

Directors concurred that the main challenge for Benin is to achieve sustained higher growth and reduce poverty, while preserving macroeconomic stability and reducing the economy's vulnerability to external shocks. They stressed that reaching these objectives will require continuation of fiscal consolidation, while increasing the level and quality of poverty-reducing outlays, and enhanced efforts to implement the reform agenda.

Directors agreed that a further PRGF arrangement with low access would help Benin to continue to address the remaining challenges that lie ahead, including through securing the necessary concessional financial support, and would provide a framework for a sound policy response in case of external shocks. Directors stressed that the program supported by any such arrangement should incorporate the lessons learnt from the EPA, should set out clear objectives on the structural front, and should integrate the PRSP into a sound multi-year macroeconomic framework. A broader aim would be for Benin eventually to exit from the use of Fund resources.

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

Benin: Selected Economic Indicators, 2000-03

	2000	2001	2002	2003
	(Annual changes in percent)			
Income and prices				
Real GDP	5.8	5.0	6.0	4.8
Consumer prices (average)	4.2	4.0	2.4	1.5
Real effective exchange rate	-4.2	3.2	4.8	4.6
Terms of trade	2.9	15.3	-16.0	7.0
	(Annual change in percent of beginning-of-period broad money)			
Money and credit				
Net foreign assets	10.7	23.6	-8.5	-10.7
Broad money	21.2	12.7	-3.8	0.2
Credit to the nongovernment sector	25.5	-0.3	16.1	33.0
Net credit to central government	0.3	-9.1	2.3	-0.2
	(In percent of GDP, unless otherwise indicated)			
Investment and saving				
Gross domestic investment	18.9	19.2	17.8	18.2
Gross national saving	10.9	12.5	8.9	9.7
External sector				
Current account balance	-8.0	-6.7	-9.0	-8.5
Overall balance of payments	3.2	5.4	-3.8	-2.0
NPV of debt to export of goods and nonfactor services	203.9	231.4	243.8	157.5
Central government finance				
Central government revenue	16.6	16.2	16.9	17.0
Total expenditure and net lending	20.1	20.3	20.4	21.6
Primary fiscal balance	-2.6	-3.3	-2.6	-4.0
Overall fiscal balance	-3.5	-4.2	-3.5	-4.6

Sources: Beninese authorities; and IMF staff calculation and estimates

Statement by Damian Ondo Mañe, Executive Director for Benin
October 6, 2004

I thank the staff for the well–balanced Staff Report and Ex Post Assessment of Performance Under Fund-Supported Programs. I would also like to express the gratitude of my Beninese authorities for the continuous financial and technical assistance they have received from the Fund over the years. They fully appreciate the assessment made of their relations with the Fund over the last decade, and the lessons they have drawn from it. They would like to state that they have made in that time span considerable progress towards a market-based economy and have reduced a large number of rigidities that had constrained the efficient functioning of the economy. They would also like to state that more remains to be done to improve the efficiency of the economy further in the period ahead. Therefore, they would like to pursue their unfinished reform agenda through a new Fund-supported PRGF.

Developments during 2004

After registering a strong annual real GDP growth of about 5 percent in 2001-03, the Beninese economy suffered a setback in 2004 owing to a sharp fall in cotton production and to a restriction on her re-exports which have been subjected to an import restriction imposed by a neighboring country. The restrictions had a further adverse effect of leading to halving the projected GDP growth rate to 3 percent and to customs revenue being 17 percent lower than planned for the first quarter of the year. This decision also led to a 20 percent decline in port traffic in Cotonou (Benin) between January and April 2004 compared to the same period in 2003. During the 2003/04 season, cotton production was 17 percent lower than anticipated because of disruptions caused by some entities acting outside the main umbrella organization in charge of safeguarding relations between input importers, distributors, farmers and ginners. That umbrella organization represents the interests of all stakeholders and is in charge of selling the farmers' output, collecting payments from ginners, using part of the proceeds to pay back input credit, and paying the remainder to the farmers. Its inability that year to collect from some farmers while it was still responsible for paying back input credit delayed the start of its normal season-related activities. The negative impact on output arising from this delay was compounded by the low yields resulting from the low quality of inputs purchased outside the regular system.

My Beninese authorities promptly implemented remedial actions to redress the weak economic activities in 2004 and revised their policies to achieve their medium-term objectives. In the event, they decided to raise the GDP growth rate gradually to 7 percent, a level set under the PRSP, over the medium term. This would be achieved through a rebound in cotton production, improved overall economic efficiency, and increase in investment together with an acceleration of the pace of structural reforms. For the immediate future, the authorities took strong fiscal actions to strengthen tax administration, cut total spending by 1.4 percent of GDP while protecting priority spending. In that connection, they adopted the quarterly fiscal indicative targets for 2004 shown in Table 15 of the staff report, which they have broadly adhered to. They expect these measures to be sufficiently strong to contain the fiscal deficit to 5.5 percent of GDP and have it financed mainly with concessional borrowing and with grants.

Monetary policy, carried out by the regional central bank, was cautious, and helped keep inflation low. The central bank has succeeded in containing private sector credit through an increase in reserve requirement. The financial sector in Benin continues to be relatively sound, and my authorities have committed to improving compliance with prudential ratios, fostering the supervision of micro-finance institutions and deepening financial intermediation. The divestiture of the only bank left in the government portfolio could not be completed, as the sale of minority shares was not attractive to investors. However, the authorities are determined to re-launch the bidding soon, combining government shares with those of the regional development bank.

The implementation of **structural reforms** has been invigorated in 2004 compared with the past. In the cotton sector, the authorities are taking measures to avoid the recurrence of the disturbances experienced in the 2003/04 season by strengthening the institutions in charge of seed cotton and input commercialization with the advice of the World Bank. They intend to prevent the reemergence of a parallel circuit for input provision and sale of cotton. They will also put in place before the 2004/05 harvest season a regulatory framework defining the role and responsibilities of the government and the shareholders, and replace the current system of administrative allocation of seed cotton with a system based on competition among ginners.

The divestiture of SONAPRA, which has been delayed in the past has gained momentum as the privatization of its four ginning mills has reached its final stage. The Government has recently accepted the highest offers received for three ginning mills through a competitive bidding process. Their transfer to qualifying bidders is envisaged to be completed by end-October 2004. Regarding the fourth ginning mill, some delays have been incurred because the highest bidder was unable to provide sufficient financing guarantees. However, the authorities expect to complete the sale of that mill in the coming weeks.

As for the port of Cotonou, the authorities are encouraging the unions to agree on a new agenda for the involvement of the private sector in its management. The company supplying water and electricity has recently been split, with different entities in charge of water and of electricity. Likewise, the post office and telecommunications have become separate entities.

Civil service reform, by contrast, has been very difficult to manage because of the long and difficult process of mustering consensus with unions and Parliament. Recently the government suffered a setback as the Constitutional Court rejected the draft law establishing a single statute for government employees covering both civil servants and contractuals, which is considered a prerequisite for implementing the reform. With the assistance of the World Bank, the authorities are preparing a new roadmap for civil service reform.

My Beninese authorities are mindful of the need to improve the business environment. To this end, they want to implement the strategy to fight corruption adopted in 2002 and at the same time strengthen the legal and judiciary system, with the support of the World Bank.

Furthermore, they plan to associate the private sector with a diagnostic study on the impediments to private sector development. With World Bank technical assistance, they also want to address the question of the lack of land titling, which limits access to credit.

The authorities' medium term policy framework

As shown in Box 3 of the staff report, the improvement in Benin's growth performance is driven by a higher contribution from capital accumulation, and a positive contribution from total factor productivity. This is the result of an improved environment for private sector investors, an increase in public investment sustained by inflows of external assistance, and progress in liberalizing the economy. Therefore, in order to achieve the PRSP growth rate of at least 7 percent over the medium term, the authorities are aware that they will need to further improve the business environment for domestic and external private sector investors, and accelerate implementation of the structural reform agenda.

Fiscal policy has a major role to play in the medium term context. My authorities will continue to combat tax evasion, collect tax arrears and simplify procedures in line with recent Fund technical assistance recommendations to strengthen tax and customs administration. They have just requested additional technical assistance to examine direct taxation policy and the tax exemption system.

The authorities plan to frame their expenditure strategy over the medium term, in line with PRSP priorities in budgetary allocations, while keeping total outlays stable in terms of GDP. The World Bank is helping update the medium-term expenditure framework, and this will serve as a vehicle for carrying out annual budgets, which will highlight priority poverty-reducing expenditures. In that medium-term framework, the authorities intend to keep the wage bill at 5 percent of GDP by containing wage increases, and to curb the growth in non-priority spending. Also with the assistance of the World Bank, they are completing the reform of public expenditure management in order to improve the monitoring of budget execution, enhance transparency and enhance the tracking of poverty reduction public outlays. My authorities have reiterated their resolve not to carry out the large infrastructure projects (port and airport) under the five year Government Action Program (2001-2006) without assessing their macroeconomic and financial impact, and without discussing the results with the IMF and World Bank staffs. The financing of fiscal deficits will be provided by donors as they see that the implementation of Benin's PRSP continues to satisfy their conditionality.

The poverty reduction strategy, according to Benin's PRSP, will hinge on high quality growth, reinforced macroeconomic stability, and transparent, efficient, and monitorable public spending, as mentioned above. The acceleration of structural reforms is key to raising productivity and improving public service delivery; encouraging private investment in order to foster economic growth and diversification, in particular through improved governance and judiciary system; and improving the level and quality of government outlays while curbing non-priority expenditures. Shortcomings in the PRSP as identified in the joint staff assessment (JSA) are being addressed. In parallel the authorities are assessing progress in implementing the poverty reduction strategy presented in the PRSP and evaluating the execution of poverty reducing outlays. As necessary, the targets and policies presented in the PRSP will be revised and will be mentioned in the first annual progress report of implementation of the PRSP scheduled for the end of this year.

My authorities have begun the difficult task of tackling the **vulnerabilities of their economy.** To this end, they are promoting the diversification away from cotton into such crops as cashew nuts, wood products, and staple agricultural products. This way, non-cotton exports have increased from 16 percent of total exports in 1994-99 to 29 percent on average during 2000-03. Nevertheless, they are aware that more needs to be done to reduce the vulnerability of the economy to external shocks. Hence they count very much on further Fund policy advice and that of specialized international institutions.

My authorities stress the destabilizing effects of market access and farm subsidy policies of large industrial counties, which both hinder welfare in low-income countries and reduce their chances of further diversification. It is for that reason that they have launched, with other West African countries, the Sectoral Initiative on Cotton calling for the elimination of cotton subsidies.

My authorities agree with the findings of the **Ex Post Assessment.** They also acknowledge the mixed records in the implementation of structural reforms in the past, which is due to the necessary but slow pace of building consensus over these issues so vital to the lives of the people. However, they point to a newly found determination to press ahead with these reforms as consensus-building takes hold. For these reasons, my authorities feel that the reform agenda is far from being finished. They would therefore like to secure Fund financial support for another PRGF with the expectation that the catalytic nature of Fund financing will strengthen the hand of government reformers to pursue their policy agenda, and give the right signal to the international community and markets to muster the necessary financing and policy advice to push forward the remaining reforms. The representatives of the international community present in Benin as well as the private sector share my authorities' views.