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Benin and the IMF

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November 26, 2012

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Benin: Letter of Intent, and Technical Memorandum of Understanding

October 24, 2012

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LETTER OF INTENT

REPUBLIC OF BENIN

MINISTRY OF ECONOMY
AND FINANCE

The Minister

To :

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Cotonou, October 24, 2012

Dear Ms. Lagarde:

1. The Government of Benin continues to implement its economic and financial program under the Extended Credit Facility (ECF) in order to achieve its growth and poverty reduction objectives. We wish to take the opportunity of the fourth review to take stock of program implementation at end-June 2012 and to define the policies and reforms we plan to implement in the second half of 2012 and in 2013.

2. Despite a difficult international economic climate, the implementation of our program was satisfactory overall. All the quantitative performance criteria and indicative targets for end-March and end-June 2012 were met. The medium-term economic framework is largely unchanged, and the government reaffirms its resolve to implement the policies and reforms described herein. We hereby request conclusion of the fourth review under the ECF arrangement and the associated disbursement of Special Drawing Right (SDR) 10.61 million

I. Recent Economic Developments and Program Implementation

A. Recent Economic Developments

Economic developments in 2011

3. The real GDP growth rate was 3.5 percent in 2011 compared to 2.6 percent in 2010. This recovery in economic activity was principally driven by: (i) the significant increase in agricultural production; (ii) increased cotton production; and (iii) the rebound in construction and public works activities, led by infrastructure construction. Inflation remained under control in 2011, standing at 2.7 percent on average, below the convergence criterion of the West African Economic and Monetary Union (WAEMU).

4. The current account deficit (excluding grants) widened in 2011, growing to 10.3 percent of GDP compared to 8.2 percent of GDP in 2010. In particular, the volume of cotton product exports and other exports dropped sharply. However, the improved balance of the capital account and sound behavior of foreign investment made it possible to limit the overall balance of payments deficit to 4.9 percent of GDP.

5. Money supply grew by 9.0 percent in 2011, driven by the foreign assets of the commercial banks and by credit to the private sector and to government following the rebound in economic activity. The net foreign assets of the banking system remained stable overall.

6. The Government continued its prudent external indebtedness policy. At end-2011, the total public debt was equivalent to 30 percent of GDP. The risk of a debt crisis remains low.

7. Measures aimed at reinforcing public finance were implemented throughout 2011, including notably the introduction of the one-stop window at the Port of Cotonou. However, revenue performance at end-2011 fell below expectations at CFAF 605.6 billion, or 17.6 percent of GDP, compared to an objective of CFAF 650.1 billion, owing to problems associated with the implementation of the new-generation import-verification program (IVP) and the resistance of some economic stakeholders. In order to maintain balanced public finances, the government had to contain expenditure to CFAF 754.7 billion, or 21.9 percent of GDP, compared to an objective of CFAF 801 billion. The overall fiscal deficit, on a cash basis and excluding grants, came to

4.9 percent of GDP, in line with the program targets. This deficit was financed as planned by external resources (grants and concessional borrowing) and issues of securities on the regional financial market.

Economic developments in the first quarter of 2012

8. The inflation rate rose sharply in early January 2012 following the partial elimination of fuel subsidies in Nigeria. Inflation came to 7.4 percent at end-March (year-on-year) up from an average of about 3.0 percent before.

9. There was continued strengthening of public finances in the first quarter of 2012. Total revenue was CFAF 211.6 billion, or 5.6 percent of GDP, surpassing the program target by CFAF 63.3 billion. Overall, expenditure was in keeping with program targets. Consequently, the overall fiscal balance exceeded its target.

10. Customs receipts at end-March 2012 amounted to CFAF 81.0 billion, or 2.2 percent of GDP, exceeding the program target of CFAF 69.6 billion. This performance was largely attributable to the impact of implementing the one-stop window at the Port of Cotonou. Domestic tax receipts amounted to CFAF 71.4 billion, or 1.9 percent of GDP, exceeding the program target. This performance reflects solid collections of the value-added tax (VAT) and property taxes, thanks to the intensification of collection efforts by the tax administration. Nontax revenue increased sharply to CFAF 59.2 billion, or 1.6 percent of GDP. This performance is explained by the additional revenue from the sale of a third-generation (3G) mobile telephone license of CFAF 44 billion, of which only CFAF 9 billion had been programmed.

11. Expenditure execution during the first quarter of 2012 was kept within the program target. Total expenditure and net lending (on a cash basis) came to CFAF 193.2 billion, or 5.1 percent of GDP, compared to a forecast of CFAF 186.6 billion. Primary current expenditure overall slightly exceeded the program target. Investment expenditure was slightly greater than the budgetary targets, largely reflecting the payment of some certified payments (*décomptes*). The indicative benchmark for priority social expenditure was observed, totaling CFAF 51.6 billion compared to a target of CFAF 46 billion thanks to rigorous monitoring.

12. Summing up, all the quantitative performance criteria were met at end-March 2012. The criterion relating to the basic primary balance was observed by a comfortable margin:

performance of CFAF 39.0 billion, or 1.0 percent of GDP, compared to an objective of CFAF -20.5 billion. This reflects the solid performance of the tax and nontax collection agencies (*régies financières)*, quite apart from the revenue associated with the sale of the 3G mobile telephony license. The criterion relating to net domestic financing was also largely observed: performance of CFAF -75.9 billion, or -2.0 percent of GDP, compared with a target of CFAF 43.5 billion (adjusted amount). The criteria relating to the external debt and arrears were observed as well.

Economic developments during the second quarter of 2012

13. Sound fiscal performance continued during the second quarter of 2012 despite the provisional suspension of the IVP in May (see below). Overall, revenue performance at end-June was satisfactory. Total revenue at end-June 2012 came to CFAF 380 billion, or 10.1 percent of GDP, compared to a target of CFAF 331.3 billion. Customs receipts amounted to CFAF 156.4 billion, or 4.2 percent of GDP, compared to a target of CFAF 154.3 billion, thanks to the surplus accumulated during the first quarter. Domestic tax receipts exceeded the program target, reaching CFAF 148.7 billion, or 4.0 percent of GDP, compared to the forecast of CFAF 145.7 billion. This solid performance is attributable to strengthened controls by the tax administration, in particular on the value-added tax (VAT), the tax on industrial and commercial profits, and the corporate tax. Nontax revenue came to CFAF 74.8 billion, or 2.0 percent of GDP, compared to a target of CFAF 31.3 billion. This performance is explained for the most part by the payment of 3G license fees and by the solid performance of other nontax revenue.

14. The control of expenditure commitments introduced at the start of the year was maintained during the second quarter. Total expenditure was below targeted levels at end-June 2012, amounting to CFAF 397.6 billion, or 10.6 percent of GDP, compared to a target of CFAF 437.0 billion. The wage bill reached CFAF 133.0 billion compared to a target of CFAF 134.1 billion. Similarly, investment expenditure was below targeted levels owing to delays in the implementation of some projects.

15. All in all, the basic primary balance exceeded its target of CFAF -39.8 billion, or -1.1 percent of GDP, and net domestic financing exceeded its target of CFAF 60.7 billion. The overall fiscal balance (cash basis excluding grants) came to CFAF 27.3 billion, or 0.7 percent of GDP, compared to a target of CFAF 124.4 billion. This deficit was financed largely by the

disbursement under the ECF, World Bank support, and a drawing against the deposits of the central government, which were reconstituted in part by the issuance of Treasury bills. The benchmarks relating to the external debt and arrears were also observed.

B. Implementation of Structural Reforms in the First Half of 2012

16. The implementation of the structural reforms has had mixed results.

- To address long-standing delays in obtaining development partner support for three tax reform initiatives, the government will fund these reforms out of its 2013 budget; on this basis, the government plans to meet the following three benchmarks by end-March 2013 :
    - The start of the development of a complete and integrated information system at the Directorate-General of Taxes and Government Property (DGID), scheduled for March 2012; it may take up to three years to finalize.
    - The generalization of the taxpayer identification number (TIN) to all taxpayers and to all units of the tax and customs administrations, planned for December 2011.
    - The generalization of the systematic use of the TIN by the Directorate-General of Customs and Indirect Duties (DGDDI) and the cessation of the use of nonspecific numbers in the ASYCUDA++ system (Automated System for Customs Data), planned for end-December 2011.
- Progress has been made with regard to the adoption of a civil service reform strategy by decision of the Council of Ministers, planned for May 2012: the provisional report on the last preparatory study was completed in July 2012 and validated on August 30, 2012; the results of the studies carried out will be used in drawing up the strategy, which is scheduled to be adopted by December 31, 2012.
- The draft law governing pensions, based on the final report on the actuarial audit of the Benin National Retirement Fund (FNRB) and scheduled to be conveyed to the National Assembly in May 2012, was presented in September 2012 following the observations raised in the course of a first reading in the Council of Ministers

- The operationalization of the computerized transit module of ASYCUDA^{++} between the Port of Cotonou and all the land-based border customs units, planned for March 2012, has been completed; goods in transit have been tracked by this module since September 2012.

- The detailed review of all existing tax and customs exemptions was submitted to the Council of Ministers on schedule in June 2012, including an action plan for implementing the recommendations.

- The finalization of the pilot phase of "Sunkwè" (database of civil servants) was completed; the decision to extend it to the Ministry of Labor and Civil Service (MTFP) was reached on schedule in June 2012; this measure is being implemented with technical assistance from the World Bank.

- Two customs sector reform benchmarks planned for implementation by end-June 2012 were missed owing to the suspension of the services contract related to the IVP: (i) the blocking of the ASYCUDA^{++} fields for the TIN, the inspection certification (AV) number, and the customs value corresponding to the AV; and (ii) the integration of IVP data into the one-stop window to systematize the reconciliation of the certification and attestation functions of the IVP during information processing. To ensure that these reforms can proceed, the government is committed to relaunching the IVP under a new contract. It intends to launch the re-bidding process and select the winner of the new IVP contract by end-March 2013, which would allow the IVP to be re-operational and the two related customs reforms benchmarks to be met by end-June 2013.

- The bank that lost its license in 2009 and had been under provisional administration was placed in liquidation on March 6, 2012, before the planned date of September 2012.

17. The authorities have taken steps to strengthen the financial sector. Of the 12 banks doing business in Benin at end-June 2012, 10 had come into line with the decision of the WAEMU Council of Ministers on increasing minimum capital. One of the two banks whose capital and reserves were not in keeping with that decision has been placed in provisional administration. The authorities are exploring options for the second nonconforming bank. The Law of January 26, 2012 regulating decentralized financial structures in Benin and the law on banking regulation

of June 4, 2012 have been passed by the National Assembly, giving the country modern instruments for rehabilitating the financial sector.

II. Economic, Financial, and Structural Policies for the Future

18. The government will continue the implementation of its economic and financial program to achieve its macroeconomic stability and sustainable development objectives. The government's economic policy is aimed at supporting the economy's return to strong and equitable growth led by the private sector. This choice will require a consolidation of the macroeconomic framework and strengthened structural measures.

A. Macroeconomic Framework

19. The prevailing uncertainties regarding the global economy, and those pertaining to the cotton sector and the IVP (see below), suggest we should be prudent and project growth of 3.5 percent for 2012. The growth rate may be expected to improve in 2013. We currently project a growth rate of 3.8 percent, but are continuing to monitor developments over the second half of 2012. The rebound in economic activity in 2013 would result from, among other things, the ongoing efforts to increase agricultural production and build the capacity of the Port of Cotonou while enhancing its competitiveness. Owing to the impact of the elimination of subsidies on fuel from Nigeria, average annual inflation in 2012 is expected to amount to about 7 percent. However, owing to the easing of price pressures, inflation in 2013 is expected to be close to the 3 percent ceiling adopted within the WAEMU multilateral surveillance framework.

20. The government decided to suspend the framework agreement governing the cotton sector in March 2012 and to organize the approach to crop year 2012/13. This decision was driven by the operational failures identified, in particular the poor governance of the sector, which did little to promote the development of cotton production. Nevertheless, it is projected that in the 2012/13 crop year production will exceed that of crop year 2011/12. In consultation with the private sector, the government will develop and implement a new framework agreement. This new agreement will aim at promoting the integrated development of the sector by production zone, with the objective of effective liberalization, enhanced competitiveness, and greater transparency in governance so as to impart new dynamism to the sector. A regulatory authority will be established to ensure that the sector functions in keeping with the principles

forth in the framework agreement. The state will continue to provide critical services in the areas in question, such as organizing and providing support to producers, monitoring the provision of production inputs, and gathering statistical information.

21. The government decided temporarily to suspend the contract for IVP services in May 2012 owing to the difficulties experienced with program implementation. Among the problems in question, the government noted the high costs of the services associated with this reform, disputes relating to the scanner inspection of goods for delivery to outlying countries, the spike in prices for mass consumer goods, and the gradual process of turning away from use of the Port of Cotonou as distinguished from other competing ports in the subregion. Given these issues, the government decided to reorient the modalities for implementing selected IVP services, in particular regarding the flexibility of the rates applied. In addition, the cost of user-borne services (other than customs clearance) will be reduced in order to improve the competitiveness of the port. These approaches will be supported by trade missions to other countries of the subregion making use of the port and by targeted measures aimed at reducing the time delays in releasing goods from the port platform itself.

22. The external current account deficit is expected to decline somewhat in 2012 and 2013, in response to the anticipated increase in cotton exports and external budgetary support. This deficit is expected in large measure to be financed by inflows of foreign capital.

B. Fiscal Policy

23. For the remainder of 2012, the government will undertake to limit the basic primary balance at end-December 2012 to CFAF 7.2 billion, or 0.2 percent of GDP. It intends to: (i) strengthen the one-stop window at the Port of Cotonou, ensuring coverage not only of the import side (already operational) but the export side as well; (ii) replace the preshipment inspection by an import control process that will provide information on value; and (iii) maintain discipline with respect to current expenditure, and the wage bill in particular, while speeding up public investment execution.

24. Strengthened controls will contribute to an increase in domestic revenues in 2012, to achieve the target at end-December 2012 of CFAF 710.0 billion, or 18.9 percent of GDP. The progress made regarding nontax revenue will make it possible to offset the projected shortfall in

customs receipts resulting from the slowdown in port activities. The government will continue to accord special attention to priority to social expenditure to achieve the goal of CFAF 134.0 billion by end-December 2012.

25. The government's fiscal policy in 2013 will aim at beginning to create fiscal space to address unanticipated economic developments. Total revenue should come to 19.1 percent of GDP while total expenditure should amount to 22.5 percent of GDP. The basic primary balance would be slightly positive at 0.4 percent of GDP.

26. Customs receipts in 2013 should come to CFAF 356.0 billion, or 8.8 percent of GDP. Supplementing the implementation of the new IVP orientations referred to above, the mobilization of resources at customs should benefit from progress made with computerization, in particular the expansion and operationalization of the ASYCUDA++ transit module. Domestic tax receipts should increase to CFAF 329.0 billion, or 8.6 percent of GDP. Customs receipts and taxes would be supported by, among other things, the efforts of the joint Customs-Taxes team. Nontax revenue should remain at a level comparable to that of the preceding year in terms of GDP (excluding the 3G license).

27. Total expenditure and net lending should amount to CFAF 905.0 billion, or 22.5 percent of GDP, in 2013. The breakdown of expenditure in terms of GDP should remain broadly unchanged from 2012. The wage bill will be limited to CFAF 298.9 billion, an unchanged level in terms of GDP. Investment expenditure of CFAF 272.9 billion, or 6.8 percent of GDP, will contribute to economic growth. The fiscal deficit will be financed by recourse to the regional securities market and the mobilization of grants and external concessional assistance.

C. Structural Reforms

28. While the following do not constitute structural benchmarks under the program, the government nevertheless intends to speed the implementation of the following measures:

- Submission of the 2012 operating accounts to the Audit Office by June 30, 2013, at the latest;
- Implementation of the recommendations made by the December 2011 mission from the IMF's Fiscal Affairs Department

- Review of the operational framework of the cotton sector to correct for the failures identified and effectively deregulate the sector, this by the beginning of the 2014/15 crop season;
- Implementation of the new orientations for the IVP;
- Introduction of a harmonized database for management of the civil service; and
- Organization of an UNCTAD study mission before December 2012 to replace ASYCUDA++ with ASYCUDA World, an improved version of the software.

29. At the financial sector level, the government will ensure the promulgation of the three pieces of regional legislation passed by the National Assembly, namely the framework law on banking regulation, the law on combating the financing of terrorism in the WAEMU member states, and the law on sanctions for violations involving checks, bank cards, and other electronic payment methods. The government will continue its collaboration with regional institutions for the restructuring of two Beninese banks in financial distress and will ensure regular monitoring of the microfinance institutions in difficulty.

III. Growth and Poverty Reduction Strategy

30. The third Growth and Poverty Reduction Strategy (GPRS III) for 2011–15 and its Priority Action Program (PAP) will remain the reference documents for the government's actions in this area. The strategy is aimed at improving the population's living standards and achieving the Millennium Development Goals (MDGs), particularly in the health, primary education, water, and sanitation sectors. The GPRS III identifies two growth scenarios: one scenario based on the macroeconomic framework supported by the ECF and a second more optimistic scenario. In view of recent developments and the outlook for the short and medium term, the first scenario is the one being implemented for the time being, in line with the 2011 JSAN recommendations. The authorities will continue to explore the measures necessary for moving toward the more optimistic scenario, including its financing.

31. The progress report on the GPRS III for 2011 was drawn up and used as the basis for the joint review with development partners in June 2012. It made it possible to highlight the progress made and formulate recommendations for improving implementation of the GPRS III in the years ahead. All in all, 48 percent of the indicators identified in the monitoring framework achieved the

targets set, while 33 percent made progress without meeting the targets and 19 percent showed slippages.

32. The government will continue to devote special attention to the execution of priority social expenditure to protect vulnerable population groups and achieve the MDGs, in particular in the priority sectors mentioned earlier.

IV. Conclusion

33. The government is convinced that the measures and policies described in this letter are appropriate for achieving the program objectives, and it reaffirms its commitment to take any additional measures required. It therefore requests conclusion of the fourth review under the ECF arrangement and the associated disbursement. The fifth review of the program is expected to be completed by end-March 2013, based on the observance of performance criteria as at September 30, 2012. The sixth review of the program is expected to be completed by end-August 2013, based on the observance of performance criteria as of March 31, 2013.

34. Program monitoring will be based on the semiannual performance criteria, quantitative targets, and structural benchmarks defined in Tables 1 and 2 attached to this letter. To facilitate program monitoring, the government will regularly provide IMF staff with all the information required, as defined in the Technical Memorandum of Understanding (TMU), or any other additional information that it considers necessary or that the IMF staff requests.

35. Should it prove necessary, the government will take any further measures that may become appropriate for achieving program objectives. The government will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in this letter, in accordance with the IMF's policies on such consultation. The government authorizes the IMF to publish the staff report on the discussions of the fourth review of the program, and this letter of intent.

Sincerely yours,

/s/

Jonas A. Gbian

Minister of Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2011–13

(Billions of CFA francs)

	December 31, 2011		March 31, 2012				June 30, 2012				Sept. 30, 2012	December 31, 2012	March 31, 2013
	Indicative Targets		Performance Criteria				Indicative Targets				Performance Criteria	Indicative Targets	Performance Criteria
	Outturn		Prog.[1]	Adj. Prog.[2]	Prel.		Proj.	Adj. Proj.[2]	Prel.		Prog.	Proj.	Prog.
A. Quantitative performance criteria [3]													
Net domestic financing of the government (ceiling) [4, 5]	54.7	Met	48.7	43.5	-75.9	Met	60.7	60.7	-20.9	Met	48.6	47.5	29.0
Basic primary balance (excluding grants) (floor)	-2.6	Met	-20.5	-20.5	39.0	Met	-39.8	-39.8	34.5	Met	-21.7	7.2	-18.7
Memorandum item : Budgetary assistance [6]	10.3		0.0	0.0	14.5		14.6	14.6	14.5		14.6	20.9	2.7
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year [7]	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year [7]	4.6	Met	25.0	25.0	4.6	Met	25.0	25.0	4.6	Met	25.0	25.0	25.0
Accumulation of domestic payments arrears	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
C. Indicative targets [3]													
Total revenue (floor)	605.6	Not met	148.3	148.3	211.6	Met	331.3	331.3	380.0	Met	515.0	710.0	172.0
Payment orders issued outside the expenditure chain (ceiling) [8]	9.2	Met	2.5	2.5	1.5	Met	4.6	4.6	1.4	Met	7.5	10.6	2.5
Priority social expenditure (floor)	99.0	Not met	46.0	46.0	51.5	Met	75.0	75.0	82.1	Met	104.0	134.0	50.0

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Technical Memorandum of Understanding of the Second Review.

[2] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnotes 4 and 5 (per Paragraph 8 of the Technical Memorandum of Understanding).

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

[4] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted *pro-tanto* , subject to limits specified in the Technical Memorandum of Understanding (Paragraph 8).

[5] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast by more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.

[6] Gross disbursements, not adjusted for debt service obligations.

[7] Debt is considered nonconcessional if the difference between the present value (PV) of the debt and its nominal value, as a percentage of the nominal value of the debt, is lower than 35 percent. The ceiling for this continuous performance criterion was raised with effect from the second program review.

[8] Exceptional payment procedures: stock of payment orders issued since the beginning of the calendar year and not yet regularized at each test date.

Table 2 Benin: Structural Benchmarks for 2010–13			
Measure	Initial Date/ Revised Date	Objective	State of Execution
Starting the development of a complete and integrated information system at the DGID.	December 31, 2010/ March 31, 2012 / March 31, 2013	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed.
Generalization of the TIN to all taxpayers and all the units of the tax and customs administrations.	December 31, 2010/ December 31, 2011 / March 31, 2013	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed.
Generalization of the systematic use of the TIN by the DGDDI and the cessation of the use of nonspecific identification numbers at the level of ASYCUDA^{++} (0000000000000 to 2999999999949).	December 31, 2010 / December 31, 2011 / March 31, 2013	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed.
Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service.	June 30, 2011 / May 31, 2012 / December 31, 2012	Limit the expansion of the wage bill and maintain fiscal space for investments and priority social expenditures.	Delayed.
Presentation to the National Assembly of a draft law governing pensions, based on the final report of the actuarial audit of the national pension scheme (FNRB).	December 31, 2011 / May 31, 2012 / September 30, 2012	Contain the impact of the FRNB's deficit on public finances by strengthening its financial viability.	Completed.
Operationalization of the computerized transit module of ASYCUDA^{++} between the Port of Cotonou and all land-based border posts.	March 31, 2012	Enhance revenue mobilization.	Completed.
Completion of a detailed review of all existing tax and customs exemption regimes, with a view to rationalizing them; the results of this review will be presented to the Council of Ministers.	June 30, 2012	Increase the efficiency and transparency of public finances, and broaden the tax base.	Completed.
Completing the pilot phase and the decision of the extension of the "Sunkwe" system (civil servants' database) to the Ministry of Labor and Civil Service (MTFP).	June 30, 2012	Improve management of the compensation of civil servants.	Completed.
Block the following fields in the customs declaration (ASYCUDA^{++}): Taxpayer Identification Number (TIN), inspection certification number (AV), and customs valuation corresponding to the AV.	June 30, 2012 / June 30, 2013	Improve customs revenues.	Delayed.
Including the PVI data to the one-stop window to facilitate systematic consistency checks, between the certification and attestation functions during data processing within the one-stop window.	June 30, 2012 / June 30, 2013	Improve customs revenues.	Delayed.
Closing a bank that lost its license in 2009 and was placed in provisional administration.	September 30, 2012	Strengthen the financial sector.	Completed.

ATTACHMENT 1. TECHNICAL MEMORANDUM OF UNDERSTANDING

October 15, 2012

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

DEFINITIONS

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

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

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

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

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

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

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

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

(b) A loan is considered concessional if, on the date on which the contract became effective, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organisation for Economic Cooperation and Development (OECD). Specifically, the ten-year average of CIRRs reported by the OECD will be used for loans with maturities of at least 15 years, while the six-month average of CIRRs will be used for loans with shorter maturities. To both the ten-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1.00 percent for repayment periods of 15-

19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

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

QUANTITATIVE PERFORMANCE CRITERIA

Ceiling on Net Domestic Financing of the Government

Definitions

4. Net domestic financing of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any Central Bank of West African States (*Banque centrale des États de l'Afrique de l'Ouest,* BCEAO) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

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

6. The figures deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of treasury bills and bonds issued in

CFA francs on the WAEMU regional financial market calculated by the BCEAO and the figures for nonbank financing calculated by the Treasury of Benin.

7. Gross external budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives). Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all external debt (defined, in turn, as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external payments arrears.

Adjustments

8. The ceiling on net domestic financing (NDF) of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 9:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion. However, if the excess is entirely or partly allocated to the settlement of domestic arrears above and beyond the program objective specified in paragraph 9, the NDF ceiling will be lowered by an amount equal to the excess net external budgetary assistance compared with program targets, minus the sum of (a) CFAF 5 billion and (b) the excess repayment of domestic arrears compared with program targets.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 10 billion at end-June 2012; CFAF 20 billion at end-September 2012; CFAF 35 billion at end-December 2012; and CFAF 5 billion at end-March 2013.

9. For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 14.6 billion at end-June 2012; CFAF 14.6 billion at end-September 2012; CFAF 20.9 billion at end-December 2012; and CFAF 2.7 billion at end-March 2013.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 16.0 billion at end-June 2012; CFAF 23.9 billion at end-September 2012; CFAF 33.7 billion at end-December 2012; and CFAF 5.5 billion at end-March 2013.

- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are CFAF 8.7 billion at end-June 2012; CFAF 13.1 billion at end-September 2012; CFAF 17.4 billion at end-December 2012; and CFAF 4.4 billion at end-March 2013.

- The amounts of settlement of external payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 0 billion at end-June 2012; CFAF 0 billion at end-September 2012; CFAF 0 billion at end-December 2012; and CFAF 0 billion at end-March 2013.

Performance criteria and indicative targets

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 60.7 billion at end-June 2012; CFAF 48.6 billion at end-September 2012; CFAF 47.5 billion at end-December 2012; and CFAF 29.0 billion at end-March 2013. The ceiling is a performance criterion for end-September 2012 and end-March 2013, and an indicative target for end-December 2012

A. Floor for Basic Primary Fiscal Balance

Definition

11. The basic primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a payment-order basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) the payments of interest on domestic and external debt; and (b) capital expenditure financed by external grants and loans. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

Performance criteria and indicative targets

12. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -39.8 billion at end-June 2012; CFAF -21.7 billion at end-September 2012; CFAF 7.2 billion at end-December 2012; and CFAF -18.7 billion at end-March 2013. The floor is a performance criterion for end-September 2012and end-March 2013, and an indicative target for end-December 2012.

B. Non-accumulation of New Domestic Payments Arrears by the Government

Definition

13. Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (*Caisse Autonome d'Amortissement*, CAA) and the treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement. The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears. The nonaccumulation of new domestic payments arrears will be continuously monitored throughout the program

C. Non-Accumulation of External Public Payments Arrears by the Government

Definition

15. External public payments arrears are defined as the sum of payments due, but not paid, by the government at the due date specified in the contract, taking into account any applicable grace period, on external debt of, or guaranteed by, the government. The definitions of debt provided in paragraph 3a, of external debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

16. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. The performance criterion on the non accumulation of external public payments arrears will be continuously monitored throughout the program.

D. Ceiling on the Contracting or Guaranteeing by the Government of New Non-concessional External Debt Maturing in a Year or More

Definition

17. This performance criterion applies not only to debt as defined in paragraph 3a, but also to commitments contracted or guaranteed by the government (as defined in paragraph 18) (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 3c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. The definition of nonconcessional debt in paragraph 3b applies here.

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

Continuous performance criterion

19. No nonconcessional external borrowing will be contracted or guaranteed by the government for the duration of the program, except for borrowing with a grant element of at least 20 percent and not exceeding a cumulative amount equivalent of CFAF 25 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) for specific investment projects whose financial viability and profitability have been evaluated and approved by a recognized institution, and on condition that the loan does not seriously exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

20. The government also undertakes not to contract or guarantee any external debt during the implementation of the program without first having determined its concessionality with IMF staff.

E. Ceiling on the Contracting or Guaranteeing by the Government of New Non-concessional Short-Term External Debt

Definition

21. The definitions in paragraphs 17 and 18 also apply to this performance criterion.

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

Performance criterion

23. The government undertakes not to contract or guarantee short-term nonconcessional external debt.

24. The government also undertakes not to contract or guarantee any short-term external debt during the implementation of the program without first having determined its concessionality with IMF staff.

25. On June 30, 2012, Benin had no short-term external debt.

INDICATIVE TARGETS

Floor for Government Revenue

Definition

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

Indicative targets

27. The indicative targets for total government revenue (cumulative since January 1 of the same year) are set as follows: CFAF 331.3 billion at end-June 2012; CFAF 515.0 billion at end-September 2012; CFAF 710.0 billion at end-December 2012; and CFAF 172.0 billion at end-March 2013.

F. Ceiling on Exceptional Payment Procedures

Definition

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

Indicative targets

29. The government undertakes to limit total expenditures (cumulative since January 1 of the same year) effected by exceptional payment procedures to a ceiling of CFAF 4.6 billion at end-June 2012; CFAF 7.5 billion at end-September 2012; CFAF 10.6 billion at end-December 2012; and CFAF 2.5 billion at end-March 2013.

G. Floor for priority social expenditures

30. Priority social expenditures are determined in line with the priority programs identified in the Growth and Poverty Reduction Strategy for 2011–15 (GPRS III). These expenditures consist of selected (nonwage) expenditures *inter alia* in the following sectors: health; energy and water; agriculture; youth, sports and leisure; family and national solidarity; education, microfinance and

employment; and culture, literacy, and the promotion of national languages. Their execution is monitored on a payment-order basis during the program, through the integrated fiscal management system (SIGFiP).

Definition

31. The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1.

Table 1. Priority Social Expenditure Categories

Budget code	Description
36	Ministry of Health
37	Ministry of Energy, Petroleum and Mineral Research, Water, and Development of Renewable Energy
38	Ministry of Culture, Literacy, Crafts and Tourism
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family, Social Affairs, National Solidarity, and Disabled and Senior Citizens
44	Ministry of Higher Education and Scientific Research
49	Ministry of Microfinance and for the Employment of Youth and Women
62	Ministry of Maternal and Primary Education
63	Ministry of Secondary, Technical, and Professional Training, Reconversion and Inclusion of Youth

Indicative targets

32. The indicative targets for priority social expenditures (cumulative since January 1 of the same year) are set as follows: CFAF 75.0 billion at end-June 2012; CFAF 104.0 billion at end-September 2012; CFAF 134.0 billion at end-December 2012; and CFAF 50.0 billion at end-March 2013.

INFORMATION FOR PROGRAM MONITORING

Data on Performance Criteria and Indicative Targets

33. To facilitate effective program monitoring, the government will provide IMF staff with the following data:

Every month:

- copies of the contracts and data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;
- monthly consumer price index, within two weeks of the end of the month;
- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the SIGFiP, within six weeks of the end of the month;
- data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month; and
- the monetary survey, within eight weeks of the end of the month.

Every quarter:

- data pertaining to the amount of exceptional payment procedures or other exceptional measures, within six weeks of the end of the quarter; and
- data pertaining to priority social expenditures, within six weeks of the end of the quarter.

H. Other information

34. The government will provide Fund staff with the following data:

Every month:

- banking and nonbanking supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.

Every quarter:

- data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and

- data on the stock of external debt, external debt service, the signing of external loans and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

- in the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget execution law; as well as any decree or law pertaining to the budget or implementation of the IMF-supported program.