INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/217

BENIN

July 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT

In the context of the request for the second review under the Extended Credit Facility and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on April 20, 2018, with the officials of Benin on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 15, 2018.

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

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Benin*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 18/269
FOR IMMEDIATE RELEASE
June 29, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Extended Credit Facility Arrangement and Approves US$22.4Million Disbursement for Benin

On June 29, 2018, the Executive Board of the International Monetary Fund (IMF) completed the second review of the three-year arrangement with Benin under the Extended Credit Facility (ECF). The Board's decision, which was taken on a lapse-of-time basis,[1] makes available SDR 15.917 million (about US$22.4 million) immediately to Benin.

Economic activity expanded and inflation stayed low in 2017. Growth is estimated at 5.6 percent, buoyed by record cotton production, and the recovery of the Nigerian economy. Inflation turned positive for the year and averaged 0.1 percent, driven by food and petroleum prices. The current account deficit is estimated to have widened in 2017, due to an increase in goods imports, reflecting a scaling-up of investment and higher food imports. Budget execution in 2017 was better than initially programmed and the overall fiscal deficit (excluding grants) was limited to 7.0 percentage points of GDP, due mostly to a stronger domestic revenue performance. Public spending was contained to the programmed level. As a result, public debt accumulation was slower than programmed.

Performance under the program continues to be satisfactory. All continuous and end-December 2017 quantitative performance criteria have been met as were all the structural benchmarks (SBs). Under-execution of social spending at end-June 2017 was reversed by September and the indicative target (IT) for end-December 2017 was exceeded.

The medium-term outlook remains favorable**.** It assumes an acceleration of real GDP growth in 2019–22, driven by policy-induced increase in agricultural production and rising private investment. Inflation is forecast to remain below the WAEMU convergence rate of 3 percent over the medium term. The programmed fiscal consolidation path is expected to bring the budget deficit (including grants) down to below the WAEMU convergence criterion of 3 percent of GDP by 2019. Strong export growth would drive an improvement in the external current account position while sustained capital inflows driven by foreign direct and portfolio investments would enable Benin to contribute modestly to the build-up of WAEMU's international reserves.

[1] The Executive Board takes decisions under its lapse-of-time procedure when it agrees that a proposal can be considered and approved without convening a formal discussion.

BENIN

June 15, 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERION

KEY ISSUES

Context. Economic growth remains strong, driven by cotton production, increased public investment, and a vibrant tertiary sector that benefited from the economic recovery in Nigeria since June 2017. The fiscal consolidation path envisages a lower than originally programmed fiscal deficit (including grants) in 2018—thanks to stronger domestic revenue mobilization—and attainment of the WAEMU convergence criterion of 3 percent of GDP in 2019. Program implementation remains satisfactory with all end-December 2017 quantitative performance criteria (QPCs) met. The ongoing rebasing of the national accounts initiated in 2017 is expected to be completed later in 2018.

Program policies.

- Continue to strengthen domestic revenue mobilization and enhance the efficiency of public spending, drawing on the recommendations of the October 2017 PIMA mission.
- Reorient and prioritize public investment to promote inclusive growth and reduce poverty.
- Pursue a prudent borrowing policy while strengthening public debt management to preserve debt sustainability.
- Reinvigorate the structural reform agenda aimed at improving governance, strengthening audit and anti-corruption institutions, and improving the business environment to bolster private sector development.

Staff supports the authorities' request for completion of the second review of the ECF-supported program. Staff also supports the modification of the performance criterion on the present value (PV) of new external debt to reflect the updated debt sustainability analysis (DSA) and the addition of two structural benchmarks (SBs). Completion of this review will release a disbursement equivalent to SDR 15.917 million. The Memorandum of Economic and Financial Policies (MEFP) sets out appropriate policies to achieve the program's objectives.

Approved By
Dominique Desruelle (AFR) and Mary Goldman (SPR)

Discussions on the Second Review under the Extended Credit Facility (ECF) Arrangement were held in Cotonou during March 22–30 and in Washington D.C. during April 19-20. The mission team comprised Messrs. Norbert Toé (head), Rodolfo Maino, Victor Davies, and Ms. Aissatou Diallo (all AFR), Mr. Mouhamadou Sy (FAD), Mr. Karim Barhoumi (Resident Representative), and Mr. Joseph Houessou (Economist at the Res. Rep. Office). Ms. Boukpessi (OED) participated in the policy discussions. The mission met with Mr. Abdoulaye Bio Tchané, Minister of State of Planning and Development; Mr. Romuald Wadagni, Minister of Economy and Finance; Mr. Alain Komaclo, BCEAO National Director, Jean-Baptiste Elias, President of the National Anti-Corruption Authority, and senior economic and financial officials. The mission met with representatives of the civil society and the private sector and held a press conference. Ms. Alice Mugnier provided research support and Ms. Christelle Ndome-Yandun provided assistance for the preparation of this report.

CONTENTS

FIGURES

TABLES

ANNEXES

APPENDICES

BACKGROUND

1. Performance under the ECF-supported program is satisfactory. The underlying factors are (i) strong ownership since the start of the program in April 2017; (ii) close monitoring; and (iii) alignment of the program with the Government's Action Program (GAP), 2016–21. On December 1, 2017, the Executive Board completed the first review and, as detailed in ¶25, program performance has remained strong since then.

2. Benin's participation in two major initiatives is supporting the reform agenda. Benin became a full participant in the G20 Compact with Africa (CWA) initiative in October 2017, in line with the authorities' broader strategy to boost the role of the private sector in the economy and attract private sector financing for the GAP. The authorities submitted a policy matrix to the CWA Secretariat that lists a set of concrete actions they will take to improve the environment for private investment (Annex III). Staff initiated in late March 2018 a costing of spending required to meet the UN Sustainable Development Goals (SDGs) for education, water, sanitation, and health by 2030 as part of a group that includes four other countries.

3. The political environment remains calm, but social tensions are on the rise. Benin continues to rank among the stable democracies in sub-Saharan Africa (SSA) with an aggregate score of 82 out of 100 on the Freedom House 2018 Country Scores.[1] The 2017 Democracy Index compiled by the Economist Intelligence Unit also ranks Benin among the top 10 SSA countries. However, a law passed by Parliament in late December 2017 banning strike action by public servants providing essential services (military, police, customs, firefighters, health, and the judiciary) has been stoking social tensions. These tensions could escalate and lead to demand for pay increases.

RECENT DEVELOPMENTS

Economic activity remains strong with low inflation and better-than-programmed budget outcomes in 2017. Financial vulnerabilities are emerging.

4. Economic activity expanded and inflation stayed low. Economic growth for 2017 is estimated at 5.6 percent, buoyed by record cotton production and processing, and the recovery of the Nigerian economy (Table 1 and Figures 1-3).[2] Inflation turned positive for the year and averaged 0.1 percent, driven by food and petroleum prices. The current account deficit is estimated to have widened in 2017, due to an increase in goods imports, reflecting a scaling-up of investment and higher food imports.

---

[1] Benin scored "2" both for "Political Rights" and "Civil Liberties", out of a range of 1.0 and 7.0. A country is classified as Free (1.0 to 2.5), Partly Free (3.0 to 5.0), or Not Free (5.5 to 7.0). Caution is needed when interpreting the results as they may be affected by perceptions, recording errors, availability of information and small sample.

[2] Spillovers from Nigeria impact Benin essentially through informal trade, including fuel prices and subsidies, and remittances.

5. Fiscal consolidation is taking hold. Budget execution in 2017 was better than initially programmed with the overall fiscal deficit (excluding grants) lower by 2.3 percentage points of GDP, thanks essentially to a stronger domestic revenue performance. Public spending was contained to the programmed level. As a result, public debt accumulation was slower than programmed. First quarter data for 2018 portend a similar performance (¶26).

6. Structural reforms in some areas are lagging. While all end-December 2017 structural benchmarks and other reforms were implemented on schedule, progress in strengthening audit institutions, governance, and transparency, has been lagging after the parliament rejected amendments to the constitution in April 2017. During discussions on the second review, the authorities committed to accelerate these reforms to buttress Benin's participation in the CWA (MEFP ¶14–16).

7. The financial sector has been resilient but vulnerabilities are emerging. Financial stability indicators are adequate, but the quality of banks' loan portfolio remains a concern and has constrained credit to the private sector. Also, vulnerabilities arise from: (i) exposure to volatile demand from Nigeria; (ii) unresolved non-performing loans; and (iii) lack of economic diversification.

- Bank capitalization has been increasing since 2016 when the ratio of capital to risk-weighted assets reached 12,4 percent. Nonetheless, the elevated level of non-performing loans (19.5 percent of total loans at end-2017) points to the persistence of structural problems (Table 9).

- The liquidity ratio (total loans/total deposits) stands at 73 percent, but high loan concentration remains a concern. Lending to the government is still a major source of profits for banks, because of the interest differential between one-year government bonds and the regional central bank (BCEAO) refinancing rate.

- One small bank facing operational difficulties needs resolution and the authorities decided on buying it at the value of its equity (MEFP ¶30).

OUTLOOK AND RISKS

8. The medium-term outlook remains favorable. The outlook is broadly unchanged from the staff report for the first review under the ECF arrangement (EBS/17/109, November 17, 2017). It assumes an acceleration of real GDP growth to an average of 6.6 percent in 2019–22, driven by policy-induced increase in agricultural production and rising private investment. Inflation is forecast to remain below the WAEMU convergence rate of 3 percent over the medium term. The programmed fiscal consolidation path is expected to bring down the budget deficit (including grants) to below the WAEMU convergence criterion of 3 percent of GDP by 2019. Strong export growth would drive an improvement in the external current account position—albeit marginally—to an average deficit of 8.6 percent of GDP in 2019–22. Sustained capital inflows driven by foreign direct and portfolio investments would enable Benin to contribute modestly to the build-up of

WAEMU's international reserves. Because of the delayed enactment of the public-private partnership (PPP) Law and limited impact so far of the CWA, FDI inflows were revised down. However, increased WAEMU banks' interest in Benin's debt issuance would increase portfolio investment (Text Table 1).

Text Table 1. Benin: Comparative Key BOP Indicators, 2017-19

	2017	2018	2019	2017	2018	2019	2017	2018	2019
	EBS/17/25			EBS/17/109			Current Staff Report		
	(Percent of GDP)								
Current Account	9.1	7.0	6.6	9.1	8.2	6.9	11.1	10.8	9.2
Capital and Financial Account	6.6	5.5	5.3	10.8	12.0	13.6	11.1	13.5	14.4
o/w FDI	1.7	1.7	1.8	4.6	5.8	7.6	3.4	4.1	4.1
o/w Portfolio Investment	1.0	1.7	1.8	0.9	0.8	0.6	2.0	2.2	2.8
Overall Balance	-0.3	0.6	1.1	1.6	3.8	6.7	3.2	2.7	4.1

Source: IMF staff estimates and projections.

9. Risks to the outlook. The risks to the outlook described in the staff report for the first review (EBS/17/109) remain unchanged (Annex I, Risk Assessment Matrix). However, given the faster recovery in Nigeria (growth is to accelerate form 0.8 percent in 2017 to 2.1 percent this year) and stronger positive response of key agricultural sectors to the reforms, there is an upside potential.

POLICY DISCUSSIONS

With the program on track and given the slow progress on some of the structural reforms, discussions focused on measures needed to sustain the fiscal efforts and improve governance, transparency, and accountability, as well as the business environment.

A. Sustaining Revenue Mobilization Efforts and Improving the Efficiency of Public Spending

10. Domestic revenue performance remains strong driven by non-tax revenues (Text Table 2). Non-tax revenue overperformed in 2017 thanks to (i) efforts to collect tax arrears and special taxes on electronic communications and road fees; (ii) the non-renewal of tax exemptions for cellphone companies; and (iii) royalty payment by a cellular-phone company. Nevertheless, low tax compliance coupled with substantial tax expenditures (2.4 percent of GDP) leaves Benin with a low tax collection efficiency compared to other WAEMU countries (Annex II.I).

11. The mobilization of tax revenue should be accelerated. While welcoming the strong performance of nontax revenue, staff underscored the need to increase tax revenues by implementing the TA recommendations aimed at strengthening revenue administration. To help sustain and broaden the improvement in domestic revenue mobilization (DRM) over the medium term, the authorities are complementing the revenue administration measures with tax policy reforms (Box 1, (MEFP ¶20–21). These measures have started to yield encouraging results, with the 2018 first quarter target being met, despite tax revenue shortfalls.

Text Table 2. Benin: Developments in Domestic Revenue, 2017-18
(Percent of GDP)

	2017			2018	
	Original Prog.	EBS/17/109	Est.	Original Prog.	EBS/17/109
Total Revenue	15.4	16.8	17.6	16.0	17.5
Tax revenue	13.5	13.7	13.3	14.1	14.6
Tax on international trade	6.2	6.2	5.9	6.4	6.6
Direct and indirect taxes	7.3	7.5	7.4	7.7	8.0
Nontax revenue[1]	1.9	3.2	4.3	1.9	2.8

[1] Estimates for 2017 include payment in December of the first tranche (0.65% of GDP) of a royalty fee amounting to (1.3% of GDP) levied on a cell phone company.

Sources: Beninese authorities and IMF staff calculations.

12. Public investment management is being strengthened. The authorities fully endorsed the recommendations of the October 2017 Public Investment Management Assessment (PIMA) mission, which provided a roadmap for their efforts to improve public investment management during the various phases of project implementation (MEFP ¶22). Measures to improve absorptive capacity, drawing on an action plan recommended by the PIMA mission, are also being implemented. Specific measures to improve public investment management are described in Box 2.

B. Pursuing Fiscal Consolidation to Preserve Long-Term Public Debt Sustainability

13. Adhering to the fiscal consolidation path is critical to put public debt on a downward path. Sustaining the strong fiscal performance under the program is required to reduce the overall fiscal deficit to the WAEMU's convergence criterion of 3 percent of GDP by 2019. Thereafter, the primary fiscal balance is expected to shift into surplus in 2021, allowing a steady decline in the public debt ratio. The authorities committed to this fiscal consolidation path and indicated that they will accelerate the needed fiscal reforms to bring debt down.

14. Benin's updated debt sustainability analysis, conducted in December 2017, confirmed the moderate risk of debt distress (Annex IV). The rapid increase in domestic debt needs careful monitoring to contain the burden of the domestic debt service. Liquidity pressures that emerged in September 2017 on the regional debt market eased somewhat in the second quarter of 2018, enabling Benin to successfully tap the market. Since end-March 2018, Benin's debt issuances have been oversubscribed whereas they were significantly undersubscribed earlier this year. Staff emphasized the importance of pursuing fiscal efforts to generate a primary fiscal balance necessary to reduce the public debt-to-GDP ratio and preserve public debt sustainability in the long run.

Box 1. Sustaining Domestic Resource Mobilization

This box highlights developments in DRM to date and explores avenues to sustain the improvement in revenue collection (See Annex II.I).

Recent improvements in DRM came mainly from nontax revenue. The strong revenue performance to date under the ECF is due to increase in nontax revenues, which by definition, are less predictable than tax revenues. Benin therefore needs to boost tax revenue collection to further increase fiscal space to finance the GAP, meet the WAEMU deficit target, and preserve debt sustainability.

Improving tax revenue collection. With a tax-to-GDP ratio of 13.3 percent in 2017, Benin has the lowest tax collection ratio among WAEMU's countries, despite comparable tax rates. An analysis of the main category of taxes points to collection inefficiencies. Under the ECF arrangement, the government has embarked on critical reforms which, if fully implemented, would improve the efficiency of tax collection.

Developments in Tax Revenues, 2015-18
(Billions of CFA francs)

	2015	2016	2017		2018 Q1	
			Est.	Target	Est.	Target
Tax revenue	713.1	641.1	712.8	735.9	174.9	187.7
Tax on international trade	345.7	288.5	316.0	333.4	77.9	80.4
Direct and indirect taxes	367.4	352.6	396.8	402.5	97.0	107.3

Sources: Beninese authorities and IMF staff calculations.

Measures being implemented to increase tax revenue include:

- *Continued modernization of the tax administration*. One of the factors underlying the underperformance of the tax administration was its inability to support basic tax administration functions, such as allowing effective control over the tax population or reversing the high noncompliance rate. Therefore, under the Strategic Orientation Plan of the tax administration (POSAF), the authorities introduced new reforms aimed at (i) developing an internal audit strategy; (ii) developing the tax management I.T. system (SIGTAS); and (iii) updating the taxpayer file with a view to improving compliance (MEFP ¶10–11). They are also strengthening cooperation between the tax and the custom administrations. Several I.T. initiatives were launched to facilitate information exchange between I.T. systems. Some tax policy reforms, in addition to those envisioned in the 2018 Budget Law, are also being implemented.

- *Setting up a fiscal reference system*. At 2.4 percent of GDP in 2016, tax expenditures in Benin remain high and under-estimated. Adopting a fiscal reference system will facilitate full assessment and rationalization of tax expenditures, enable the authorities to better estimate tax expenditures, and offer the opportunity to eliminate the inefficient and costly ones.

- *Reducing tax expenditures*. Given that tax expenditures have doubled between 2013 and 2016, the authorities have started rationalizing them by not granting any new exemptions. In addition, in 2018, they did not renew tax exemptions that were granted GSM mobile phone companies. Rationalizing other tax expenditures such as those given to public tenders financed externally could raise additional revenue (MEFP ¶21).

15. Extending the maturity of domestic public debt will help preserve its long-term sustainability. Staff welcomes the authorities' plan to buy back costly domestic debt owed to domestic creditors, including the regional development bank with support from the World Bank (MEFP ¶23).[3] This operation will help reduce the cost of domestic debt and extend the average maturity of total public debt over the medium term. Nevertheless, staff urged the authorities to ensure that the reprofiling is voluntary and market-based. Seeking longer maturity obligations when tapping the regional financial market will address roll-over risks.

16. Continued efforts are needed to strengthen public debt management. Recent public debt developments and the envisaged reprofiling operation have reinforced the case for strengthening the Autonomous Amortization Fund (CAA—the public debt agency). Implementation of the Treasury Single Account (TSA) is needed to improve cash flow management and match short-term debt instruments with liquidity needs. Building on the progress made in improving availability of data on public debt (MEFP ¶13), the CAA should strengthen its capacity to improve debt monitoring, including risk assessment and monitoring of contingent liabilities from state-owned enterprises (SOEs) and PPPs.[4]

C. Inclusive Growth and Poverty Reduction

17. Fostering inclusive growth remains a priority. The authorities are fully committed to promoting inclusive growth and reducing poverty. Building on one of the key pillars of the GAP, they are pursuing policies to improve the living conditions of the population, including the implementation of the flagship reform program for protecting the poorest segments of the population (Insurance for Strengthening Human Capital—ARCH), which is expected to become operational in 2018.[5] The authorities are committed to prioritizing investment in rural areas and focusing on policies aimed at developing high value-added commercial crops and providing extension services. Staff suggested to consider the possibility of devoting a percentage of total public investment to rural areas in the 2019 budget and encouraged the authorities to accelerate the operationalization of the ARCH to make meaningful progress in reducing poverty.

18. The authorities are working closely with the Fund on the SDG initiative. The mission made progress on the SDG costing exercise as the authorities had already prioritized the SDG targets in line with national and sectoral strategies. The outcome of this exercise will help focus the authorities' poverty reduction efforts.

---

[3] World Bank's consideration of the Second Fiscal Reform and Growth Development Policy Financing is scheduled for July 2018 after which, details of the reprofiling operation will be known.

[4] SOEs' debt is now included in total public debt.

[5] The ARCH includes universal medical coverage for the targeted population, food care, clean water and sanitation, and health care during early childhood years.

Box 2. Making Public Investment More Efficient

The authorities are addressing inefficiencies in public investment, drawing on the recommendations of the PIMA mission (See Annex II.II).

A clear roadmap to follow. The report of the PIMA mission, finalized in January 2018 proposed 48 measures that will help to improve the efficiency of public investment in Benin. These are organized under 4 pillars: (i) improving the institutional framework; (ii) ensuring the availability and sustainability of funding; (iii) upgrading of the preparation and implementation of investment projects; and (iv) considering the sustainability of investments.

Authorities fully endorsed the PIMA recommendations. They proposed a timeline for the implementation of the needed reforms (MEFP ¶22) with the following measures expected by end-2019:

- *Improving the institutional framework* by (i) enacting a comprehensive legal framework through the finalization and adoption of a high-level regulatory text that encompasses all phases of the public investment management cycle, (ii) developing the information system and their interfaces including in line ministries and integrating a module that allows an ex-ante prioritization of projects, and (iii) ensuring comprehensive publication and transparency of information;

- *Ensuring the sustainability of domestic financing* by strengthening the tools of the sectoral distribution of the public investment envelop;

- *Upgrading the preparation and implementation of investment projects* by (i) conditioning their inclusion to the public investment program to the existence of a preliminary feasibility study to strengthen the ex-ante selection of projects, (ii) revising and harmonizing existing methodological evaluation manuals, both at the Ministry of Planning and in line ministries, (iii) for projects with a cost above a certain threshold, define a standard mandatory evaluation file including a cost-benefit analysis with a specific requirement for large-scale projects to have an external evaluation, and (iv) developing a culture of review and ex-post evaluations; and

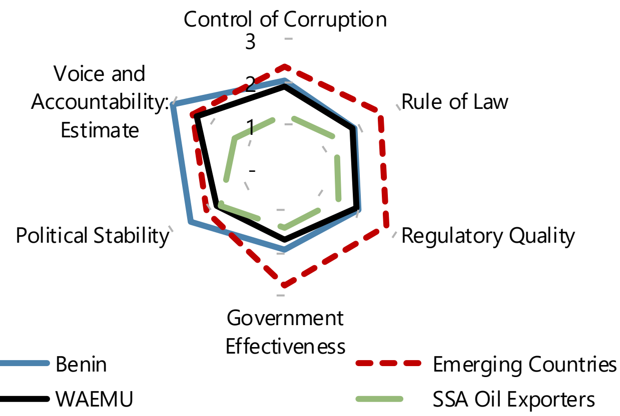
- *Improving the sustainability of investments* by (i) systematically evaluating the recurrent costs associated with investment projects, and (ii) including in the budgets of eligible line ministries a specific allocation for infrastructure maintenance.

It is expected that a follow-up TA mission in early 2019 will take stock of the progress made on the implementation of recommendations of the PIMA report.

19. Several governance indicators point to progress in fighting corruption in Benin. Benin scored 39 points out of 100, on Transparency International's 2017 Corruption Perception Index (CPI).[6]

[6] The indicators used in this report such as the WGI, the Doing Business Index (DBI), the Global Competitiveness Index, and CPI are subject to uncertainty around the point estimate. Estimates reflect the relative, not the absolute, performance of the country. These indicators should be interpreted with caution since their methodology generates margins of error for each governance estimate and they are based on a survey of perceptions by business people and country experts of the level of corruption in the public sector, using diverse sources. The surveys combine views of enterprises, citizen, and expert survey respondents. The surveys' margins of error need to be considered when making comparisons over time. The indicators should be mainly used for evaluating broad trends over time, not formulating specific governance reforms.

Text Figure1. Benin: Governance Indicators, 2016
(re-scaled: 0=weak, 5=strong)



This was 3 points higher than the 2016 score and well above the SSA average score of 32.9. The World Bank Worldwide Governance Indicators (WGI) also indicate progress in the "Control of Corruption" in 2016 (Text Figure 1). However, the perception on the ground is that governance needs to be strengthened further and the judiciary made more independent to effectively fight corruption. Also, efforts to reform audit institutions, improve transparency, and foster accountability, have been lagging (¶6). While recognizing the limitations of the CPI, the authorities welcomed the recent improvement and committed to pursue reforms aimed at further improving governance and reducing corruption.

20. Implementation of anti-corruption and AML/CFT frameworks should not be delayed. Staff urged the authorities to strengthen the anti-corruption agencies,[7] and discussed with the relevant agencies measures needed to enable them to effectively carry out their responsibilities. The authorities took steps in 2017 to strengthen internal audit bodies with the aim of improving governance and combatting impunity, and intend to further strengthen internal control systems in 2018 (MEFP ¶14). Also, consistent with their commitment to strengthen the AML/CFT and anti-corruption frameworks, they are in the process of implementing an action plan for the implementation of the recommendations made following the 2016 assessment of the National Integrity System carried out by Transparency International with the support of the European Union (MEFP ¶16). The National Anti-Corruption Authority (ANLC) is finalizing a Handbook of Procedures and a Users' Guide to raise awareness to fight corruption. Considering Benin's upcoming AML/CFT assessment in January 2019, staff also called for the passing of the AML/CFT draft law proposal sent to Parliament in January 2018.

21. Strengthening audit institutions will bring greater transparency in the public sector. Staff urged the authorities to complete the plan for reforming the government's internal and

[7] Several agencies are involved in the fight against corruption, including the Public Procurement Regulatory Authority, the ANLC, and the National Bureau for Financial Information Processing, which were established following passage of the anti-corruption law in October 2011.

external audits and create an independent and transparent audit system. They noted that commercial courts were created and made operational in 2017 (MEFP ¶15).

D. Improving the Business Environment

22. The weak business environment is a major impediment to private sector development.[8] Despite some recent improvement, the business environment remains challenging and Benin's participation in the CWA initiative has heightened the importance of accelerating reforms to promote private sector development. These include:

- Facilitating paying taxes and enforcing contracts, which were identified as major constraints in the business environment;
- Improving access to electricity is another priority;
- Adopting policies to improve competitiveness, drawing on the findings of the most recent Global Competitiveness Report. Such policies include boosting education and productivity improving labor market efficiency, and promoting production diversification;
- Addressing cases of conflict of interest by enforcing existing laws on public officials' participation in private sector activity; and
- Enforcing contract enforcement and reducing bureaucratic inefficiency and corruption would also help spur private sector activity.

More generally, the authorities should accelerate the reforms identified in the CWA policy matrix (¶2) aimed at improving the framework conditions for private investment. The new investment promotion agency established in 2017 and the institutional framework for implementating Doing Business reforms are expected to become fully operational in 2018 (MEFP ¶27–28) and contribute to improving the business environment.

OTHER ISSUES

23. Measures are being taken to promote financial inclusion and strengthen supervision. The authorities are promoting the mobilization of resources by microfinance institutions (MFIs or decentralized financial systems) that cater to the poor (MEFP ¶31-33). In January 2018, they launched a five-year plan to transition to Basel II/III standards. Furthermore, they are strengthening supervision of MFIs, including through tightened licensing requirements. The WAEMU Banking Commission (BC) is expected to reinforce the supervision of the top ten MFIs. Judicial capacity is being strengthened by providing training on commercial regulation and creating commercial courts and arbitration mechanisms. While announcement by the government to buy the ailing bank has prevented a run on it, a de facto bail out of current equity holders would be undesirable. In this

[8] Benin moved up from 155th in 2017 to 151st in 2018 in the World Bank's DBI.

context, the mission urged the authorities to prepare a credible plan to recapitalize or restructure the bank in connection with the BC's authorization, and ensure that costs to the Treasury are minimized.

24. Capacity development. Staff and the authorities agreed that the TA priorities under the capacity building framework for 2018–19 will be tax and customs administration and PFM, including public investment management. Support to improve real sector statistics will target the strengthening of national account statistics (Annex V).

25. Data Issues. The rebasing of the national accounts initiated in 2017 is yet to be completed (MEFP ¶34). Also, despite Benin's participation in the *Enhanced General Data Dissemination System (e-GDDS)*, data dissemination has been untimely. Staff encourages the authorities to provide more resources to the national statistics office, expedite work on the rebasing, implement their plans to address data gaps, and adopt measures to improve the quality and timeliness of economic data.

PROGRAM CONDITIONALITY, FINANCING ASSURANCES AND SAFEGUARDS ASSESSMENT

26. Performance under the program remains strong. All continuous and end-December 2017 QPCs have been met (MEFP, ¶8 and Table 1), as were all the SBs (MEFP, Table 2). Two SBs related to public investment management are proposed. It is notable that the under-execution of social spending at end-June 2017 was reversed by September and the indicative target (IT) for end-December 2017 was exceeded. Budget execution through end-March 2018 is better than programmed with a slight overperformance of total revenue and a significant under-execution of total spending, particularly capital outlays. As a result, the programmed budget deficit was halved and all the ITs for March 2018 appear to have been met (Table 3). Based on tax revenue performance through end-April 2018, the total revenue target for the year is within reach. Nevertheless, the authorities stand ready to adjust non-priority spending in case of any shortfall.

27. Program implementation risks are manageable. These include: (i) possible tightening of financing conditions in regional and international markets; (ii) removal of oil subsidies by Nigeria in response to rising international oil prices; and (iii) growing social tensions (¶3). An increase of 200 basis points in interest rates in the regional market in 2018 could add about CFAF 3.1 billion (0.3 percent of government revenue) that year[9] and on average CFAF 4.7 billion annually over the next two years (Text Table 3). The authorities indicated they stand ready to take measures should these risks materialize to preserve the program fiscal targets.

[9] Assuming the rate increase takes effect on July 1st, 2018.

Text Table 3. Benin: Impact of a 200 bps Increase in Domestic Interest Rates on Debt Service, 2017–20[1]

	2017	2018		2019		2020	
		Baseline	200bpi	Baseline	200bpi	Baseline	200bpi
				(Billions of CFA francs)			
Total interest due	**88.4**	**107.6**	**110.7**	**129.1**	**133.2**	**121.3**	**126.5**
Short-term debt (≤ 1 year)	16.9	10.7	12.4	12.3	15.6	11.4	14.4
Medium and long-term debt	71.5	96.9	98.3	116.8	117.6	109.9	112.1
				(Percent of total revenues)			
Total interest due	**9.4**	**10.5**	**10.8**	**11.9**	**12.3**	**9.9**	**10.4**
Short-term debt (≤ 1 year)	1.8	1.0	1.2	1.1	1.4	0.9	1.2
Medium and long-term debt	7.6	9.5	9.6	10.8	10.9	9.0	9.2
Memorandum Items				(Billions of CFA francs)			
Stock of domestic public debt	1,735.9	1846.2	...	1790.0	...	1660.1	...
Short-term debt (≤ 1 year)	159.4	169.5	...	164.3	...	152.4	...
Medium and long-term debt	1,576.5	1676.7	...	1625.6	...	1507.7	...
Total revenues	944.4	1021.6	...	1081.5	...	1219.9	...

Sources: Beninese authorities and IMF staff calculations.

[1] Assuming the rate increase takes effect on July 1st, 2018.

28. The program is consistent with regional policies. The policies being pursued under Benin's ECF-supported program and the economic policies at the WAEMU level are mutually reinforcing and are aimed at maintaining fiscal sustainability and contributing to regional external viability.[10] In the case of Benin, the programmed fiscal consolidation path envisages a fiscal deficit below the WAEMU norm of 3 percent of GDP by 2019, thereby contributing to regional stability. Compared to earlier projections, external and regional developments have somewhat attenuated Benin's contribution to the build-up of WAEMU's international reserves. Also, the authorities are working closely with the BC to prepare a resolution plan with a divestment strategy for the bank facing operational difficulties (MEFP ¶30).

29. Financing assurances are adequate for the second review. The program is fully financed through June 2019, and there are good prospects of external support to cover the residual financing needs for the remainder of the ECF arrangement (Text Table 4).

Text Table 4. Benin: Closing of the Financing Gap, 2019-20

	2019	2020
Financing gap	28.6	44.8
Source of financing		
World Bank	11.7	11.7
Bilaterals	16.9	33.1
Residual financing gap	0.0	0.0

Sources: Beninese authorities and IMF staff calculations.

30. Capacity to repay the Fund. The capacity to repay the Fund is assessed to be adequate (Table 8). Benin has a track record of meeting its obligations to the Fund, debt

[10] West African Economic and Monetary Union: Common Policies for Member Countries. IMF Country Report No. 18/106.

service payments to the Fund remain manageable, and the risk of debt distress is moderate.

31. Safeguards assessment. An updated safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

STAFF APPRAISAL

32. Benin's economy grew robustly in 2017 and is poised for continued growth. The macroeconomic environment benefited from prudent policies since mid-2016 and sustained implementation of the authorities' reform agenda. Staff commends the authorities for steadfastly implementing such policies and structural reforms. The macroeconomic and structural policies, going forward, should be geared toward (i) creating more fiscal space for growth-enhancing and priority social sector spending; (ii) adhering to the fiscal consolidation path to contribute to the stability of the WAEMU region; and (iii) reinvigorating reforms needed to promote private sector activity.

33. Adherence to the programmed fiscal consolidation path is essential. The authorities' commitment to reduce the overall fiscal deficit below the WAEMU's convergence criterion of 3 percent of GDP by 2019 is welcome as is their readiness to reduce nonpriority spending should revenue performance fall short of program targets. It is also essential to adhere to the programmed medium-term fiscal consolidation path to preserve debt sustainably. This will require persevering in efforts to keep improving the primary fiscal balance to bring down the public debt.

34. The strong revenue performance under the program needs to be sustained. Despite shortfalls in tax revenues, domestic revenue mobilization remained strong, thanks to renewed efforts to collect tax arrears and special taxes. For the improvement in DRM to be long-lasting, the authorities need to focus attention on tax and customs administration reforms aimed at broadening the tax base, including reducing tax expenditures, and improving compliance.

35. Public debt needs to be carefully managed. While liquidity pressures in the regional market have eased, borrowing conditions could tighten rapidly and burden the public debt service. It is of paramount importance that the CAA strengthen its debt management capacity and monitor closely developments in the public debt. The authorities' plan to reprofile the public debt with World Bank assistance is a positive step. Care should be taken to ensure the reprofiling operation is conducted on a voluntary basis and is market-based.

36. Growth needs to be more inclusive with determined efforts to reduce poverty. Staff welcomes the authorities' commitment to prioritizing public rural investment and focusing on policies to increase agricultural value added. Staff commends the authorities for increasing spending in the priority social sectors and for taking the necessary steps to ensure that the ARCH becomes operational this year. The authorities are encouraged to continue to devote more resources to priority social sectors as domestic resource mobilization improves.

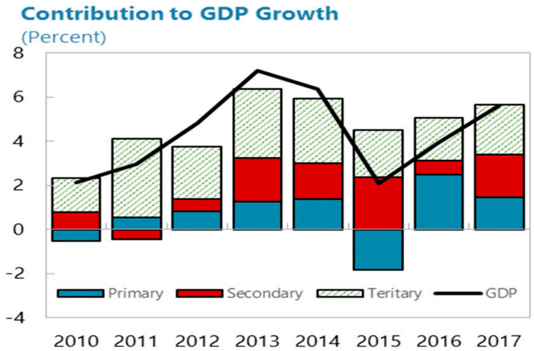
37. Further progress in improving the business environment is needed. Staff commends the authorities for the recent improvements, which are reflected in third-party indicators. However, more needs to be done to address remaining weaknesses in the business environment and improve public perception of corruption by decisively combatting impunity in the public sector and reducing bureaucratic inefficiencies. Sustained progress in these areas will enable Benin to leverage its participation in the CWA and attract private sector financing for the GAP.

38. Promoting financial inclusion will support broad-based inclusive growth. Staff welcomes the transition move to Basel II/III standards as it would help address vulnerabilities in the financial sector. Staff also welcomes the focus on strengthening MFIs to promote financial inclusion. That said, measures to remove key barriers to efficient financial intermediation and consolidate information on MFIs are needed. As to the ailing bank, staff urges the authorities to resolve it based on a credible plan that avoids bailing out equity holders and minimizes cost to the Treasury.

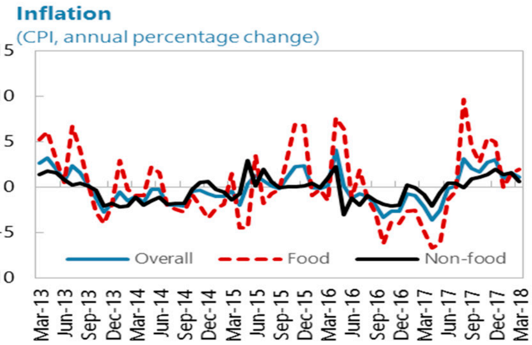
39. Staff supports the authorities' request for completion of the second review under the ECF arrangement, modification of a PC, and addition of two SBs. Performance under the program is satisfactory and the macroeconomic policies and structural reforms outlined in the MEFP are adequate to pursue the program's objectives. Risks to program implementation are manageable.

Figure 1. Benin: Recent Developments, 2010–17

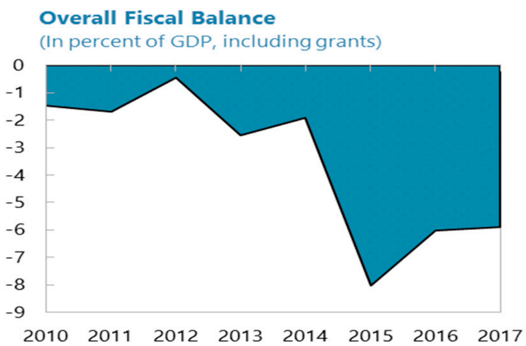
Growth has increased since 2016, pulled by agriculture and the tertiary sector…



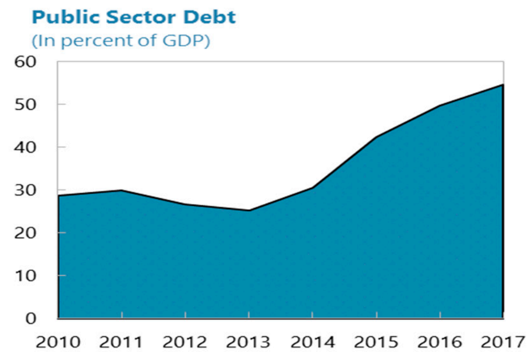
…and inflation remained subdued.



While improving under the program, the fiscal deficit remains elevated…

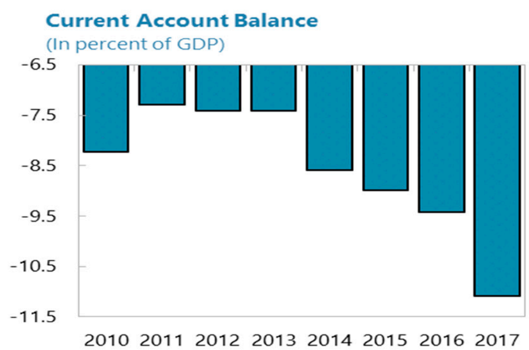


…leading to an increase in public debt, driven by domestic debt.



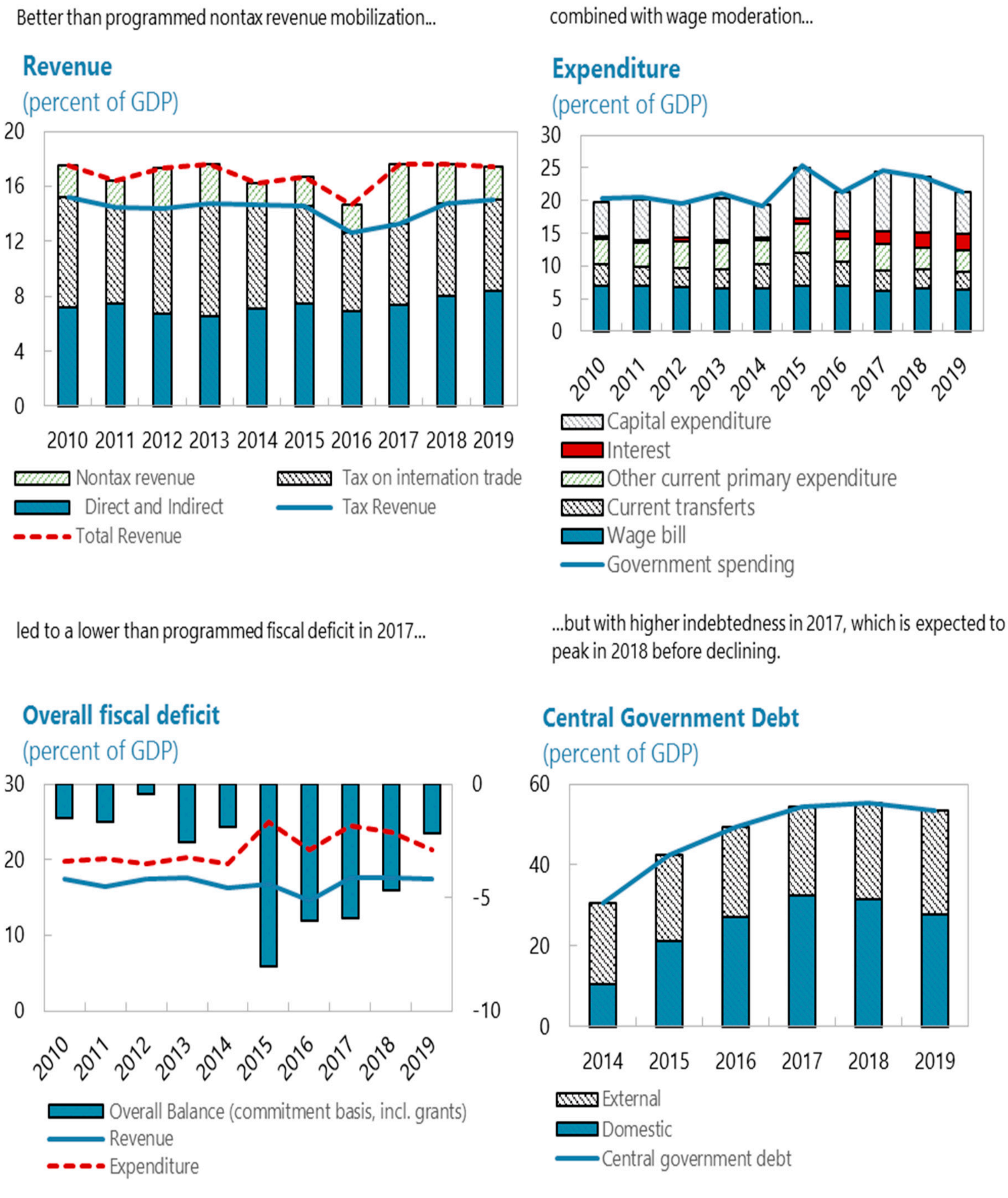
A large structural trade gap, exacerbated by a surge in imports in 2017…

…drove a deterioration in the current account deficit in 2017.



Sources: Beninese authorities and IMF staff calculations.

Figure 2. Benin: Fiscal Developments and Projections, 2010–19

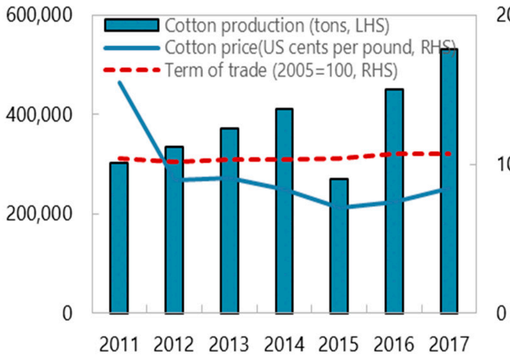


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin: Real and External Sector Developments, 2011–18

Cotton production rose in 2017...

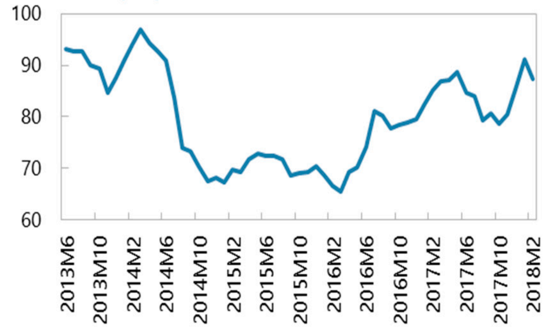
Cotton Production and Price



... as prices trended up.

International Cotton Prices

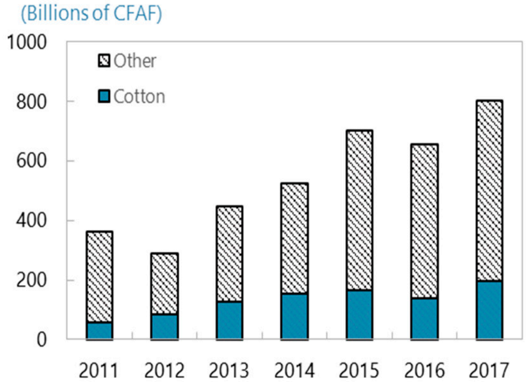
(US cents per pound)



Total exports increased...

Composition of Exports

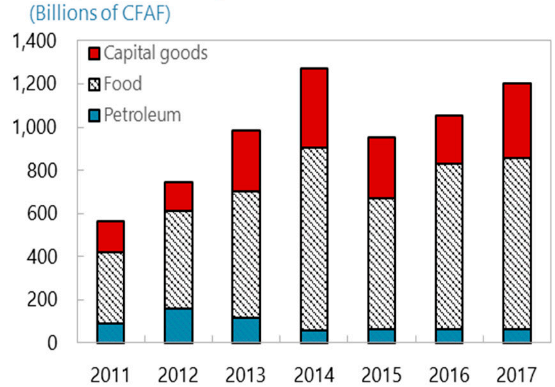
(Billions of CFAF)



... as did imports, driven by capital goods.

Composition of Imports

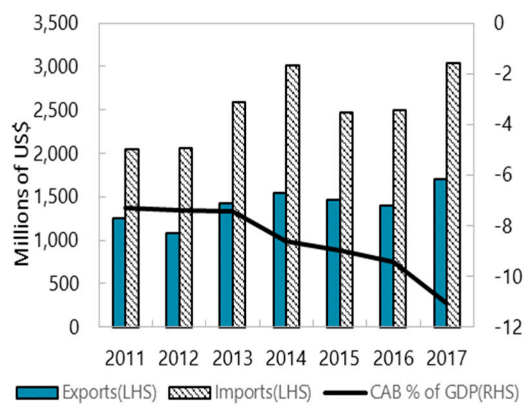
(Billions of CFAF)



The current account deteriorated...

Current Account Balance

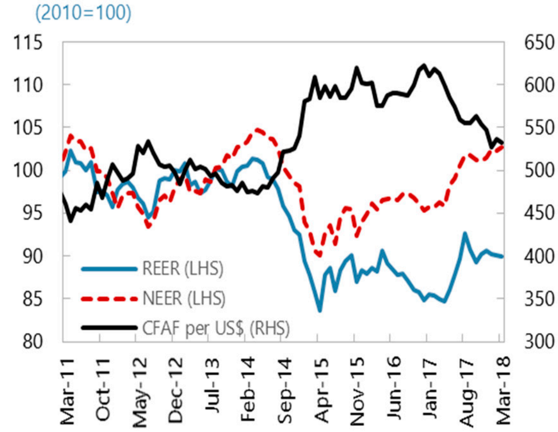
(percent of GDP)



... while the CFA franc appreciated against the US dollar, the real effective exchange rate remained stable.

Exchange Rates

(2010=100)



Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Selected Economic and Financial Indicators, 2015–22

	2015	2016	2017		2018	2019	2020	2021	2022
	Act.		EBS/17/109	Est.	Program		Projections		
	(Annual percentage change)								
National income									
GDP at current prices	2.2	3.7	6.0	5.7	8.2	8.7	9.0	9.3	7.8
GDP at constant prices	2.1	4.0	5.6	5.6	6.0	6.3	6.7	7.1	6.2
GDP deflator	0.1	-0.3	0.4	0.0	2.0	2.2	2.2	2.1	2.0
Consumer price index (average)	0.3	-0.8	0.6	0.1	2.3	2.3	2.2	2.2	2.2
Consumer price index (end of period)	2.3	-2.7	2.8	3.0	1.7	2.8	1.7	2.6	1.9
Central government finance									
Total revenue	5.0	-9.0	21.7	26.6	8.2	5.9	12.8	12.4	10.2
Expenditure and net lending	35.5	-12.6	21.0	21.3	4.5	-2.5	5.1	5.6	5.4
External sector									
Exports of goods and services	13.7	-3.9	16.0	19.2	15.1	13.8	9.7	10.6	10.7
Imports of goods and services	-2.1	1.7	18.7	19.3	10.5	7.4	8.7	7.1	8.9
Terms of trade (minus = deterioration)	2.1	3.1	0.4	1.0	-0.4	0.3	1.8	1.5	0.7
Nominal effective exchange rate (minus = depreciation)	-8.9	...	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	-10.6	...	...	...	...	...	...	...	...
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)								
Money and credit									
Net domestic assets	2.9	8.0	1.4	7.1	...	...	...	...	...
Domestic credit	18.6	9.1	1.4	-2.4	...	...	...	...	...
Net claims on central government	18.4	7.5	0.8	-3.3	...	...	...	...	...
Credit to the nongovernment sector	0.3	1.6	0.5	0.9	...	...	...	...	...
Broad money (M2)	6.1	0.4	7.8	1.1	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross investment	25.6	24.6	28.6	28.4	28.4	28.7	29.4	30.2	30.6
Government investment	7.7	5.9	9.3	9.2	8.6	6.3	6.0	5.5	5.3
Nongovernment investment [1]	17.9	18.7	19.2	19.3	19.7	22.4	23.4	24.6	25.3
Gross domestic saving	13.5	11.8	15.0	13.9	14.3	14.8	16.5	18.1	19.2
Government saving	-0.5	-0.7	1.8	2.3	2.5	2.2	3.2	3.9	4.6
Non-government saving	14.0	12.4	13.2	11.6	11.8	12.7	13.3	14.1	14.7
Gross national saving	16.6	15.2	19.4	17.3	17.5	18.3	20.1	21.4	22.6
Consumption	86.5	88.2	85.0	86.1	85.7	85.2	83.5	81.9	80.8
Government consumption	15.0	12.6	11.4	11.5	11.2	10.8	10.7	10.7	10.7
Non-government consumption	71.6	75.7	73.6	74.6	74.5	74.3	72.8	71.2	70.1
Central government finance									
Total revenue	16.7	14.7	16.8	17.6	17.6	17.1	17.7	18.2	18.6
Expenditure and net lending	25.3	21.4	24.4	24.5	23.7	21.3	20.5	19.8	19.4
Primary balance [2]	-7.9	-5.5	-5.5	-5.0	-3.8	-1.6	-0.5	0.5	1.2
Basic primary balance [3]	-4.2	-3.0	-2.4	-1.5	0.1	2.1	2.9	3.3	4.0
Overall fiscal deficit (commitment basis, excl. grants)	-8.6	-6.7	-7.5	-7.0	-6.1	-4.1	-2.8	-1.6	-0.7
Overall fiscal deficit (commitment basis, incl. grants)	-8.0	-6.0	-6.1	-5.9	-4.7	-2.4	-1.1	-0.6	0.3
Debt service (percent of revenue)	8.2	12.0	16.1	14.7	17.5	18.6	16.7	15.2	13.8
Total government debt	42.4	49.5	55.5	54.4	55.8	53.9	50.1	46.5	43.4
External sector									
Balance of goods and services	-12.1	-12.8	-13.6	-14.5	-14.0	-12.7	-12.5	-11.6	-11.3
Current account balance (incl. grants)	-9.0	-9.4	-9.1	-11.1	-10.8	-9.2	-8.9	-8.3	-8.0
Current account balance (excl. grants)	-9.0	-9.6	-9.4	-11.3	-11.1	-9.8	-9.4	-8.8	-8.5
Overall balance of payments	1.0	-5.2	1.6	3.2	2.7	5.2	5.1	5.4	5.3
Debt service-to-exports ratio	5.4	4.6	5.9	5.1	6.2	5.6	5.8	5.8	5.7
Nominal GDP (billions of CFA francs)	4,904	5,084	5,390	5,371	5,809	6,312	6,879	7,518	8,109
Nominal GDP (millions of US$)	8,295	8,576	9,269	9,246	10,979	12,066	13,149	14,373	15,501
CFA francs per U.S. dollar (period average)	591.2	592.8	...	580.9	529.1	523.1	523.1	523.1	523.1
Total non-financial public sector debt (percent of GDP) [4]	...	49.7	55.6	54.6	56.8	55.0	51.2	47.7	44.5
Population (millions)	10.6	10.8	11.1	11.1	11.4	11.7	12.0	12.3	12.6
Nominal GDP per capita (U.S. dollars)	786	791	833	831	961	1029	1093	1165	1225

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Including off-budget investment implemented by non-financial public enterprises.

[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[4] Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward as well as the nominal amount of government guarantees and SOEs debt (starting 2018).

Table 2. Benin: Consolidated Government Operations, 2015–22

	2015	2016	2017	2017	2018	2019	2020	2021	2022
	Act.		EBS/17/109	Est.	Program		Projections		
	(Billions of CFA francs)								
Total revenue	819.5	745.7	907.5	944.4	1021.6	1081.5	1219.9	1370.9	1511.0
Tax revenue	713.1	641.1	735.9	712.8	855.2	933.1	1058.1	1194.1	1320.3
Tax on international trade	345.7	288.5	333.4	316.0	387.0	412.5	463.3	521.4	578.6
Direct and indirect taxes	367.4	352.6	402.5	396.8	468.2	520.5	594.8	672.7	741.7
Nontax revenue	106.4	104.6	171.6	231.6	166.4	148.4	161.8	176.8	190.7
Total expenditure and net lending	1242.3	1086.3	1314.1	1318.1	1377.6	1343.2	1411.6	1490.6	1571.4
Current expenditure	845.3	781.1	812.5	820.2	877.6	943.2	1000.8	1074.1	1141.6
Current primary expenditure	809.0	717.8	702.6	713.8	744.7	782.1	841.2	914.6	982.5
Wage bill	343.4	353.8	363.1	337.3	378.3	399.9	435.8	476.4	513.8
Pensions and scholarships	75.0	78.4	88.9	95.6	93.9	99.3	105.1	111.1	116.8
Current transfers	249.5	185.5	155.9	166.6	170.0	172.0	186.4	202.6	217.5
of which: subsidies to the cotton sector	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	141.1	100.1	94.7	114.3	102.5	110.9	114.0	124.6	134.3
Interest	36.3	63.3	109.9	106.4	132.9	161.1	159.6	159.5	159.2
Domestic debt	20.3	51.4	91.2	88.4	107.6	129.1	121.4	116.4	109.0
External debt	16.0	11.9	18.7	18.0	25.3	32.1	38.2	43.2	50.1
Capital expenditure and net lending	397.0	305.2	501.6	497.9	500.0	400.0	410.8	416.5	429.8
Capital expenditure [1]	376.9	299.6	501.6	491.5	500.0	400.0	410.8	416.5	429.8
Financed by domestic resources	216.6	178.5	332.2	313.0	273.0	166.5	182.3	210.5	202.7
Financed by external resources	160.3	121.1	169.4	178.5	227.0	233.5	228.5	206.0	227.0
Net lending	20.2	5.5	0.0	6.4	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-394.0	-306.0	-330.7	-316.5	-273.1	-153.9	-78.1	-42.6	20.5
Primary balance [2]	*-386.6*	*-277.3*	*-296.6*	*-267.3*	*-223.1*	*-100.6*	*-32.1*	*39.8*	*98.8*
Basic primary balance [3]	*-206.1*	*-150.6*	*-127.3*	*-82.4*	*3.9*	*132.9*	*196.4*	*245.8*	*325.8*
Change in arrears	-0.4	-1.4	-5.0	-5.3	-10.0	-10.0	-10.0	-10.0	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-10.3	-1.4	-5.0	-5.3	-10.0	-10.0	-10.0	-10.0	-10.0
Overall balance (cash basis, excl. grants)	-422.8	-341.3	-411.5	-364.4	-366.0	-271.7	-201.7	-129.7	-70.4
Financing	422.8	341.3	411.5	364.4	366.0	243.1	157.0	129.7	70.4
Domestic financing	291.4	224.2	168.4	185.9	118.8	-43.2	-128.2	-105.5	-179.7
Bank financing	121.4	158.0	17.3	-69.6	145.1	-168.7	-210.4	-195.4	-276.7
Net use of IMF resources	-3.6	-5.1	17.8	17.9	15.5	13.0	1.6	-8.9	-6.9
Disbursements	0.0	0.0	26.6	25.8	26.7	24.4	12.2	0.0	0.0
Repayments	-3.6	-5.1	-8.8	-7.9	-11.2	-11.3	-10.6	-8.9	-6.9
Other	125.1	163.1	-0.5	-87.4	129.6	-181.8	-212.1	-186.5	-269.8
Nonbank financing	170.0	66.2	151.1	255.5	-26.3	125.5	82.3	89.9	97.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-7.4	-7.1	-7.5	-7.0	-7.0	0.0	0.0	0.0	0.0
Other	177.4	73.3	158.6	262.5	-19.3	125.5	82.3	89.9	97.0
External financing	131.4	117.0	243.1	178.5	247.1	286.3	285.1	235.2	250.1
Project financing	160.3	121.1	240.0	178.5	227.0	233.5	228.5	206.0	255.9
Grants	28.8	26.1	60.0	43.3	67.0	71.0	71.0	60.0	70.5
Loans	131.4	95.0	180.0	135.3	160.0	162.5	157.5	146.0	185.4
Amortization due	-28.9	-24.3	-51.9	-51.8	-35.3	-28.8	-34.2	-39.8	-42.4
Budgetary assistance	0.0	20.2	55.0	51.7	55.4	81.6	90.8	69.0	65.5
Financing gap		0.0	0.0	0.0	0.0	28.6	44.8	0.0	0.0
Expected Financing						28.6	44.8		
World Bank						11.7	11.7		
Bilaterals						16.9	33.1		
Nominal GDP	4,904	5,084	5,390	5,371	5,809	6,312	6,879	7,518	8,109
Central government debt	2,080	2,517	2988.9	2,921	3,239	3,403	3,446	3,499	3,517
Domestic public debt	1,037	1,373	1799.2	1,736	1,846	1,790	1,660	1,564	1,391
External public debt	1,044	1,143	1189.7	1,185	1,393	1,613	1,786	1,935	2,126
Government guarantees		9.0	9.5	9.5	10.3	11.2	12.2	13.3	14.4
Nonfinancial public sector debt		2,526	2,998	2,930	3,300	3,469	3,524	3,583	3,609

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Data include executed pre-financed projects.

[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

Table 3. Benin: Consolidated Central Government Operations, 2017–18

	2017								2018				
	Q1		Q2		Q3		Year		Q1		Q2	Q3	Year
	EBS/17/109	Est.	EBS/17/109	Est.	EBS/17/109	Est.	EBS/17/109	Est.	Prog.	Est.	Prog.	Prog.	Prog.
	(Billions of CFA francs)												
Total revenue	189.6	189.7	443.9	443.9	659.9	659.9	907.5	944.4	204.8	209.5	445.5	707.1	1021.6
Tax revenue	160.9	160.9	337.4	337.4	512.6	512.6	735.9	712.8	187.7	174.9	395.6	612.4	855.2
Tax on international trade	69.4	69.4	141.8	141.8	223.7	223.7	333.4	316.0	80.4	77.9	164.7	274.2	387.0
Direct and indirect taxes	91.5	91.5	195.6	195.6	288.9	288.9	402.5	396.8	107.3	97.0	230.9	338.2	468.2
Nontax revenue	28.7	28.7	106.5	106.5	147.3	147.3	171.6	231.6	17.1	34.6	49.9	94.7	166.4
Total expenditure and net lending	239.4	233.9	586.2	586.2	925.5	925.5	1314.1	1318.1	341.3	268.9	659.2	988.4	1377.6
Current expenditure	166.8	164.7	394.4	394.4	620.5	620.5	812.5	820.2	218.3	189.9	424.6	630.8	877.6
Current primary expenditure	148.4	146.4	348.3	348.3	549.0	549.0	702.6	713.8	198.5	170.8	364.2	537.7	744.7
Wage bill	88.0	88.0	163.1	163.1	262.8	262.8	363.1	337.3	102.2	95.8	193.5	264.0	378.3
Pensions and scholarships	19.2	19.2	40.2	40.2	72.8	72.8	88.9	95.6	25.2	22.9	54.2	78.5	93.9
Current transfers	23.1	22.6	80.8	80.8	123.3	123.3	155.9	166.6	49.6	33.0	70.6	127.4	170.0
of which: subsidies to the cotton sector	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Expenditure on goods and services	18.4	16.5	64.2	64.2	90.2	90.2	94.7	114.3	21.5	19.1	45.9	67.9	102.5
Interest	18.3	18.3	46.1	46.1	71.4	71.4	109.9	106.4	*19.8*	*19.1*	*60.3*	*93.1*	*132.9*
Domestic debt	15.0	15.0	37.7	37.7	59.2	59.2	91.2	88.4	15.5	14.6	48.7	75.8	107.6
External debt	3.4	3.3	8.4	8.4	12.2	12.2	18.7	18.0	4.3	4.5	11.6	17.2	25.3
Capital expenditure and net lending	72.6	69.1	191.7	191.7	305.0	305.0	501.6	497.9	123.0	79.0	234.6	357.6	500.0
Capital expenditure	69.1	67.1	189.1	189.1	301.9	301.9	501.6	491.5	123.0	81.1	234.6	357.6	500.0
Financed by domestic resources	32.3	42.1	128.7	128.7	212.2	212.2	332.2	313.0	75.9	57.3	128.8	189.7	273.0
Financed by external resources	36.8	25.0	60.4	60.4	89.7	89.7	169.4	178.5	47.0	23.8	105.9	167.9	227.0
Net lending (minus = reimbursement)	3.5	2.0	2.7	2.7	3.1	3.1	0.0	6.4	0.0	-2.1	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-42.3	-38.2	-121.7	-121.7	-238.6	-238.5	-325.7	-316.5	-136.5	-59.4	-213.7	-281.3	-356.0
Primary balance [1]	-31.5	-25.9	-96.2	-96.2	-101.3	-194.1	-296.6	-267.3	-116.7	-40.3	-153.4	-188.2	-223.1
Basic primary balance [2]	8.8	1.1	-33.1	-33.1	-194.1	-101.3	-127.3	-82.4	-69.7	-18.5	-47.5	-20.3	3.9
Change in arrears	-0.1	-0.1	-0.5	-0.5	-0.7	-0.7	-5.0	-5.3	-2.5	-0.3	-5.0	-7.5	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.1	-0.1	-0.5	-0.5	-0.7	-0.7	-5.0	-5.3	-2.5	-0.3	-5.0	-7.5	-10.0
Overall balance (cash basis, excl. grants)	-53.6	-48.6	-141.6	-141.6	-258.9	-258.9	-411.5	-364.4	-139.0	-62.6	-218.7	-288.8	-366.0
Financing	53.6	48.6	141.6	141.6	258.9	258.9	411.5	364.4	-139.0	62.6	218.7	288.8	366.0
Domestic financing	38.1	44.9	113.7	113.7	207.1	207.1	168.4	185.9	74.7	43.0	107.9	103.0	118.8
Bank financing	-26.8	-26.8	-89.5	-89.5	-57.1	-57.1	17.3	-69.6	95.1	92.4	62.9	106.5	145.1
Net use of IMF resources	-2.3	-2.3	9.3	9.3	5.4	5.4	17.8	17.9	-3.2	-3.2	7.7	5.3	15.5
Disbursements	0.0	0.0	13.3	13.3	13.3	13.3	26.6	25.8	0.0	0.0	13.3	13.3	26.7
Repayments	-2.3	-2.3	-4.0	-4.0	-7.9	-7.9	-8.8	-7.9	-3.2	-3.2	-5.6	-8.0	-11.2
Other	-24.4	-24.4	-98.8	-98.8	-62.5	-62.4	-0.5	-87.4	98.3	95.5	56.0	101.2	129.6
Nonbank financing	64.9	71.7	203.2	203.2	264.2	264.2	63.6	255.5	-20.5	-49.3	45.0	-3.5	-26.3
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-6.7	-6.7	-6.9	-6.9	-6.9	-6.9	-7.5	-7.0	-2.0	-1.4	-2.0	-4.0	-7.0
Other	71.7	78.4	210.1	210.1	271.1	271.1	71.1	262.5	-18.5	-47.9	47.0	0.5	-19.3
External financing	15.5	3.6	27.8	27.8	51.8	51.8	243.1	178.5	64.3	19.6	110.8	185.8	247.1
Project financing	36.8	25.0	60.4	60.4	89.7	89.7	240.0	178.5	47.0	23.8	105.9	167.9	227.0
Grants	7.5	6.0	20.6	20.6	27.0	27.0	60.0	43.3	13.3	12.0	29.9	44.6	67.0
Loans	29.3	19.0	39.8	39.8	62.6	62.6	180.0	135.3	33.8	11.8	76.0	123.3	160.0
Amortization due	-21.4	-21.4	-32.5	-32.5	-37.9	-37.9	-51.9	-51.8	-5.3	-4.2	-17.7	-21.7	-35.3
Budgetary assistance	0.0	0.0	0.0	0.0	0.0	0.0	55.0	51.7	22.6	0.0	22.6	39.6	55.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	15.8	14.0	0.0	0.0	0.0	0.0	15.8
Loans	0.0	0.0	0.0	0.0	0.0	0.0	39.2	37.8	22.6	0.0	22.6	39.6	39.6
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:	7.5	6.0	20.6	20.6	27.0	27.0	75.8	57.3	13.3	12.0	29.9	44.6	82.8
GDP (billions of CFA francs, annual)	5390	5371	5390	5371	5390	5371	5,390	5,371	5,809	5,809	5,809	5,809	5,809

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

Table 4. Benin: Consolidated Central Government Operations, 2015–22

	2015	2016	2017		2018	2019	2020	2021	2022
	Act.		EBS/17/109	Est.	Program		Projections		
	(Percent of GDP)								
Total revenue	16.7	14.7	16.8	17.6	17.6	17.1	17.7	18.2	18.6
Tax revenue	14.5	12.6	13.7	13.3	14.7	14.8	15.4	15.9	16.3
Tax on international trade	7.0	5.7	6.2	5.9	6.7	6.5	6.7	6.9	7.1
Direct and indirect taxes	7.5	6.9	7.5	7.4	8.1	8.2	8.6	8.9	9.1
Nontax revenue	2.2	2.1	3.2	4.3	2.9	2.4	2.4	2.4	2.4
Total expenditure and net lending	25.3	21.4	24.4	24.5	23.7	21.3	20.5	19.8	19.4
Current expenditures	17.2	15.4	15.1	15.3	15.1	14.9	14.5	14.3	14.1
Current primary expenditures	16.5	14.1	13.0	13.3	12.8	12.4	12.2	12.2	12.1
Wage bill	7.0	7.0	6.7	6.3	6.5	6.3	6.3	6.3	6.3
Pensions and scholarships	1.5	1.5	1.6	1.8	1.6	1.6	1.5	1.5	1.4
Current transfers	5.1	3.6	2.9	3.1	2.9	2.7	2.7	2.7	2.7
Expenditure on goods and services	2.9	2.0	1.8	2.1	1.8	1.8	1.7	1.7	1.7
Interest	0.7	1.2	2.0	2.0	2.3	2.6	2.3	2.1	2.0
Domestic debt	0.4	1.0	1.7	1.6	1.9	2.0	1.8	1.5	1.3
External debt	0.3	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.6
Capital expenditure and net lending	8.1	6.0	9.3	9.3	8.6	6.3	6.0	5.5	5.3
Capital expenditure	7.7	5.9	9.3	9.2	8.6	6.3	6.0	5.5	5.3
Financed by domestic resources	4.4	3.5	6.2	5.8	4.7	2.6	2.7	2.8	2.5
Financed by external resources	3.3	2.4	3.1	3.3	3.9	3.7	3.3	2.7	2.8
Net lending (minus = reimbursement)	0.4	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-8.0	-6.0	-6.1	-5.9	-4.7	-2.4	-1.1	-0.6	0.3
Primary balance [1]	-7.9	-5.5	-5.5	-5.0	-3.8	-1.6	-0.5	0.5	1.2
Basic primary balance [2]	-4.2	-3.0	-2.4	-1.5	0.1	2.1	2.9	3.3	4.0
Change in arrears	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.2	0.0	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Overall balance (cash basis, excl. grants)	-8.6	-6.7	-7.6	-6.8	-6.3	-4.3	-2.9	-1.7	-0.9
Financing	8.6	6.7	7.6	6.8	6.3	3.9	2.3	1.7	0.9
Domestic financing	5.9	4.4	3.1	3.5	2.0	-0.7	-1.9	-1.4	-2.2
Bank financing	2.5	3.1	0.3	-1.3	2.5	-2.7	-3.1	-2.6	-3.4
Net use of IMF resources	-0.1	-0.1	0.3	0.3	0.3	0.2	0.0	-0.1	-0.1
Other	2.6	3.2	0.0	-1.6	2.2	-2.9	-3.1	-2.5	-3.3
Nonbank financing	3.5	1.3	2.8	4.8	-0.5	2.0	1.2	1.2	1.2
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Other	3.6	1.4	2.9	4.9	-0.3	2.0	1.2	1.2	1.2
External financing	2.7	2.3	4.5	3.3	4.3	4.5	4.1	3.1	3.1
Project financing	3.3	2.4	4.5	3.3	3.9	3.7	3.3	2.7	3.2
Grants	0.6	0.5	1.1	0.8	1.2	1.1	1.0	0.8	0.9
Loans	2.7	1.9	3.3	2.5	2.8	2.6	2.3	1.9	2.3
Amortization due	-0.6	-0.5	-1.0	-1.0	-0.6	-0.5	-0.5	-0.5	-0.5
Budgetary assistance	0.0	0.4	1.0	1.0	1.0	1.3	1.3	0.9	0.8
Financing gap		0.0	0.0	0.0	0.0	0.5	0.7	0.0	0.0
Expected Financing						0.5	0.7		
World Bank						0.2	0.2		
Bilaterals						0.3	0.5		
Memorandum items:									
Total revenue and grants	17.3	15.2	18.2	18.6	19.0	18.8	19.4	19.0	19.5
Revenue	16.7	14.5	16.8	17.6	17.6	17.1	17.7	18.2	18.6
Grants	0.6	0.7	1.4	1.1	1.4	1.7	1.7	0.8	0.9
Total central government debt	42.4	49.5	55.5	54.4	55.8	53.9	50.1	46.5	43.4
Total nonfinancial public sector debt [3]		49.7	55.6	54.6	56.8	55.0	51.2	47.7	44.5
GDP (billions of CFA francs)	4,904	5,084	5,390	5,371	5,809	6,312	6,879	7,518	8,109

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[3] Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward as the nominal amount as well of government guarantees.

Table 5. Benin: Balance of Payments, 2015–22

	2015	2016	2017		2018	2019	2020	2021	2022
	Act.		EBS/17/109	Est.	Prog.		Projections		
	(Billions of CFA francs)								
Current account balance	-440.8	-478.7	-492.5	-595.1	-628.5	-583.6	-612.5	-623.1	-650.2
Excluding budgetary assistance grants	-440.8	-487.3	-508.3	-609.1	-644.3	-620.4	-649.3	-659.9	-687.0
Balance of goods and services	-593.5	-652.9	-730.5	-779.2	-816.2	-803.6	-860.3	-870.4	-919.9
Credit	864.6	830.5	935.1	990.2	1139.7	1296.8	1422.6	1574.0	1743.0
Debit	-1458.2	-1483.4	-1665.6	-1769.4	-1955.9	-2100.4	-2282.9	-2444.5	-2663.0
Trade balance [1]	-363.5	-425.7	-443.8	-490.0	-486.5	-435.9	-452.2	-408.5	-398.8
Exports, f.o.b.	703.4	656.4	748.1	803.2	945.2	1095.4	1219.1	1371.6	1559.6
Cotton and textiles	166.6	140.0	175.7	196.5	240.9	271.0	336.0	401.8	461.0
Other	536.8	516.3	572.5	606.7	704.3	824.4	883.1	969.8	1098.6
Imports, f.o.b. [2]	-1066.9	-1082.1	-1191.9	-1293.2	-1431.7	-1531.3	-1671.3	-1780.1	-1958.4
Services (net)	-230.1	-227.1	-286.7	-289.2	-329.7	-367.7	-408.2	-461.9	-521.1
Credit	161.2	174.2	187.0	187.0	194.5	201.4	203.5	202.4	183.4
Debit	-391.3	-401.3	-473.7	-476.2	-524.2	-569.1	-611.7	-664.3	-704.6
Income (net)	-0.1	1.9	-7.5	-6.8	-17.3	-27.8	-32.3	-37.3	-44.3
Of which: interest due on central government debt	-16.0	-11.9	-18.7	-18.0	-25.3	-32.1	-38.2	-43.2	-50.1
Current transfers (net)	152.9	172.3	245.5	190.9	205.0	247.9	280.1	284.6	314.0
Unrequited private transfers	74.6	86.4	150.9	98.2	109.4	131.0	162.6	166.5	185.5
Public current transfers	78.3	85.8	94.5	92.7	95.6	116.9	117.5	118.1	128.5
Of which: budgetary assistance grants	0.0	8.5	15.8	14.0	15.8	36.8	36.8	36.8	36.8
Capital and financial account balance	407.2	302.8	579.8	597.9	785.8	910.9	964.1	1031.8	1080.4
Capital account balance	28.8	26.1	60.0	43.3	67.0	71.0	75.2	79.7	84.5
Financial account balance	378.4	276.7	519.8	554.6	718.8	839.9	888.8	952.1	995.9
Medium- and long-term public capital	106.5	86.4	171.3	125.2	168.3	182.5	191.2	201.4	216.7
Disbursements	135.4	110.6	223.2	177.0	203.6	211.3	225.4	241.2	259.1
Project loans	135.4	99.0	184.0	139.3	164.0	166.5	180.6	196.4	214.3
Of which: central government project loans	131.4	95.0	180.0	135.3	160.0	162.5	157.5	146.0	185.4
Budgetary assistance loans	0.0	11.6	39.2	37.8	39.6	44.8	44.8	44.8	44.8
Amortization due	-28.9	-24.3	-51.9	-51.8	-35.3	-28.8	-34.2	-39.8	-42.4
Foreign direct investment	69.2	71.0	248.5	180.1	237.8	258.3	273.5	298.9	322.4
Portfolio investment	117.5	50.4	46.8	106.4	126.6	178.8	224.1	244.9	264.2
Other medium- and long-term private capital	28.6	29.0	30.1	61.1	72.8	87.0	95.8	105.8	229.9
Deposit money banks	-39.0	-31.6	-49.0	-24.2	-24.1	-23.7	-21.4	-22.6	-22.6
Short-term capital [2]	175.7	71.6	72.2	106.0	137.5	156.9	125.7	123.6	106.7
Errors and omissions	80.2	-88.8	0.0	170.5	0.0	0.0	0.0	0.0	0.0
Overall balance	46.6	-264.7	87.3	173.2	157.3	327.3	351.5	408.7	430.2
Change in net foreign assets, BCEAO (- = increase)	-46.6	264.7	-87.3	-173.2	-157.3	-356.0	-396.3	-408.7	-430.2
Financing gap	0.0	0.0	0.0	0.0	0.0	28.6	44.8	0.0	0.0
Expected Financing						28.6	44.8		
World Bank						11.7	11.7		
Bilateral						16.9	33.1		
	(Percent of GDP, unless otherwise indicated)								
Memorandum items:									
Current account balance (incl. budgetary assistance grants)	-9.0	-9.4	-9.1	-11.1	-10.8	-9.2	-8.9	-8.3	-8.0
Current account balance (excl. budgetary assistance grants)	-9.0	-9.6	-9.4	-11.3	-11.1	-9.8	-9.4	-8.8	-8.5
Balance of goods and services	-12.1	-12.8	-13.6	-14.5	-14.0	-12.7	-12.5	-11.6	-11.3
Trade balance	-7.4	-8.4	-8.2	-9.1	-8.4	-6.9	-6.6	-5.4	-4.9
Exports	14.3	12.9	13.9	15.0	16.3	17.4	17.7	18.2	19.2
Imports	-21.8	-21.3	-22.1	-24.1	-24.6	-24.3	-24.3	-23.7	-24.2
Income and current transfers (net)	3.1	3.4	4.4	3.4	3.2	3.5	3.6	3.3	3.3
Capital account balance	0.6	0.5	1.1	0.8	1.2	1.1	1.1	1.1	1.0
Financial account balance	7.7	5.4	9.6	10.3	12.4	13.3	12.9	12.7	12.3
Overall balance	1.0	-5.2	1.6	3.2	2.7	5.2	5.1	5.4	5.3
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	70.4	74.2	82.8	83.6	90.5	86.1	83.2	83.2	83.2
International price of oil (U.S. dollars a barrel)	50.8	42.8	50.3	52.8	62.3	58.2	55.6	54.1	53.6
WAEMU gross official reserves (in $US billions)	12.7	10.9		12.4	14.4	16.0	17.4	19.2	21.1
WAEMU gross official reserves (months of WAEMU imports of GS) [2]	5.0	4.0	3.9	4.2	4.2	4.3	4.4	4.5	4.6
WAEMU gross official reserves (in percent of broad money)	3.6	3.1		3.4	2.8	2.8	2.6	2.5	2.4
GDP (billions of CFA francs)	4,904	5,084	5,390	5,371	5,809	6,312	6,879	7,518	8,109

Table 6. Benin: Monetary Survey, 2015–19

	2015	2016	2017		2018	2019
	Act.		EBS/17/109	Est.	Prog.	
			(Billions of CFA francs)			
Net foreign assets	1207.0	1037.5	1183.4	930.8	1112.2	1491.9
Central Bank of West African States (BCEAO)	302.5	37.9	176.3	211.1	368.4	724.4
Banks	904.5	999.7	1007.1	719.7	743.8	767.5
Net domestic assets	974.2	1142.4	1095.9	1292.0	1579.9	1369.3
Domestic credit	1390.4	1581.1	1186.5	1529.7	1675.3	1549.0
Net claims on central government	240.1	398.1	364.7	328.5	473.6	281.8
Credit to the nongovernment sector[1]	1150.3	1183.0	821.8	1201.2	1201.7	1244.1
o/w: Credit to the private sector	1031.8	1107.7	821.8	1098.4	1098.9	1141.3
Other items (net)	199.2	241.4	-90.6	-7.8	-150.0	-65.7
Broad money (M2)	2102.8	2110.3	2279.2	2133.6	2692.6	2961.8
Currency	610.4	532.9	584.4	536.4	667.1	723.2
Bank deposits	675.8	704.9	1684.3	738.1	1066.4	1167.8
Deposits with postal checking accounts	816.6	872.6	10.5	859.0	959.1	1070.9
			(Change in percent of beginning-of-period broad money, unless otherwise indicated)			
Net foreign assets	4.3	-8.1	6.4	-5.1	8.5	14.6
Central Bank of West African States (BCEAO)	2.4	-12.6	4.1	8.2	7.4	13.7
Banks	2.0	4.5	2.3	-13.3	1.1	0.9
Net domestic assets	2.9	8.0	1.4	7.1	13.5	-8.1
Domestic credit	18.6	9.1	1.4	-2.4	6.8	-4.9
Net claims on central government	18.4	7.5	0.8	-3.3	6.8	-6.5
Credit to the nongovernment sector[1]	0.3	1.6	0.5	0.9	0.0	1.6
Other items (net)	-3.8	2.0	0.0	-1.1	0.0	0.0
Broad money (M2)	6.1	0.4	7.8	1.1	21.5	6.1
Currency	-1.2	-3.7	2.7	0.2	6.1	2.2
Bank deposits	2.7	1.4	5.1	1.6	15.4	3.9
Deposits with postal checking accounts	4.7	2.7	0.0	-0.6	0.0	0.0
Memorandum items:						
Velocity of broad money	2.4	2.4	2.5	2.5	2.5	2.4
Broad money as share of GDP	42.9	41.5	42.3	39.7	46.4	46.9
Credit to the nongovernment sector, [1] (year-on-year change in percent)	0.5	2.8	1.4	1.5	0.0	3.5
Credit to the private sector (year-on-year change in percent)	0.0	7.3	1.4	-0.8	0.0	3.9
Nominal GDP (billions of CFA francs, annual)	4,904	5,084	5,390	5,371	5,809	6,312
Nominal GDP growth (annual change in percent)	2.2	3.7	6.0	5.7	8.2	8.7

Sources: BCEAO; IMF staff estimates and projections.

[1] Including credit to the private sector and to other non-financial public sector.

Table 7. Benin: Schedule of Disbursements Under the ECF Arrangement

Date Available	Amount	Conditions Necessary for Disbursement
April 7, 2017	SDR 15.917 million	Executive Board approval of the ECF arrangement.
October 31, 2017	SDR 15.917 million	Observance of end-June 2017 performance criteria, and completion of the first review under the arrangement.
April 30, 2018	SDR 15.917 million	Observance of end-December 2017 performance criteria, and completion of the second review under the arrangement.
October 31, 2018	SDR 15.917 million	Observance of end-June 2018 performance criteria, and completion of the third review under the arrangement.
April 30, 2019	SDR 15.917 million	Observance of end-December 2018 performance criteria, and completion of the fourth review under the arrangement.
October 31, 2019	SDR 15.917 million	Observance of end-June, 2019 performance criteria, and completion of the fifth review under the arrangement.
March 23, 2020	SDR 15.918 million	Observance of end-December 2019 performance criteria, and completion of the sixth review under the arrangement.
Total	SDR 111.42 million	

Source: International Monetary Fund.

Table 8. Benin: Indicators of Capacity to Repay the Fund, 2018–32[1]

(In millions of SDRs; Reporting Year: January to December)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
IMF obligations based on existing credit[1] (millions of SDRs)															
Principal	10.7	14.8	13.8	11.7	9.0	10.6	7.4	6.4	6.4	4.8	0.0	0.0	0.0	0.0	0.0
Charges and interest[2]	0.14	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
IMF obligations based on existing and prospective drawings (millions of SDRs)															
Principal	10.7	14.8	13.8	11.7	9.0	12.2	15.4	20.7	22.3	20.7	14.3	8.0	1.6	0.0	0.0
Charges and interest	0.14	0.2	0.2	0.2	0.2	0.2	0.20	0.20	0.20	0.2	0.2	0.2	0.2	0.2	0.2
Total obligations based on existing and prospective credit[3]															
Millions of SDRs	10.8	15.0	14.0	11.9	9.2	12.4	15.6	20.9	22.5	20.9	14.5	8.2	1.8	0.2	0.2
Billions of CFA francs	8.3	11.5	10.7	9.1	7.1	9.5	11.9	16.0	17.2	16.0	11.1	6.2	1.4	0.2	n.a.
Percent of government revenue	0.8	1.1	0.9	0.7	0.5	0.6	0.7	0.8	0.8	0.7	0.4	0.2	0.0	0.0	n.a.
Percent of exports of goods and services	0.7	0.9	0.8	0.6	0.4	0.5	0.6	0.8	0.8	0.6	0.4	0.2	0.0	0.0	n.a.
Percent of debt service	3.2	3.9	3.6	3.1	2.4	3.4	4.4	6.1	6.6	6.1	4.1	2.1	0.4	0.0	n.a.
Percent of GDP	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.0	n.a.
Percent of quota	12.1	11.3	9.5	7.4	10.0	12.5	16.8	18.1	16.8	11.7	n.a.	n.a.	0.0	n.a.	n.a.
Outstanding IMF credit[3]															
Millions of SDRs	116.7	133.7	135.8	124.2	113.5	102.9	87.5	66.9	44.6	23.9	9.6	1.6	0.0	0.0	1.0
Billions of CFA francs	89.8	102.4	104.0	95.0	86.9	78.8	67.0	51.2	34.1	18.3	7.3	1.2	0.0	0.0	n.a.
Percent of government revenue	8.8	9.5	8.5	6.9	5.8	4.8	3.7	2.6	1.6	0.8	0.3	0.0	0.0	0.0	n.a.
Percent of exports of goods and services	7.9	7.9	7.4	6.2	5.2	4.4	3.4	2.4	1.5	0.7	0.3	0.0	0.0	0.0	n.a.
Percent of debt service	34.8	35.0	34.9	32.3	30.1	28.1	24.5	19.7	13.1	6.9	2.7	0.4	0.0	0.0	n.a.
Percent of GDP	1.5	1.6	1.5	1.3	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	n.a.
Percent of quota	94.2	108.0	109.7	100.3	91.7	83.1	70.7	54.0	36.0	19.3	7.7	1.3	0.0	0.0	0.8
Net use of IMF credit (millions of SDRs)	21.2	17.0	2.1	-11.7	-9.0	-12.2	-15.4	-20.7	-22.3	-20.7	-14.3	-8.0	-1.6	0.0	1.0
Disbursements (including prospective ones)	31.8	31.8	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	10.7	14.8	13.8	11.7	9.0	12.2	15.4	20.7	22.3	20.7	14.3	8.0	1.6	0.0	0.0
Memorandum items:															
Charges and interest, after assumed subsidies (millions of SD	0.14	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	n.a.	n.a.	n.a.	n.a.	n.a.
Nominal GDP (billions of CFA francs)	5,809	6,312	6,879	7,518	8,109	8,784	9,492	10,266	11,116	12,050	12,983	14,011	15,145	16,421	n.a.
Exports of goods and services (billions of CFA francs)	1,140	1,297	1,413	1,545	1,666	1,805	1,950	2,109	2,284	2,476	2,667	2,879	3,112	3,374	n.a.
Government revenue (billions of CFA francs)	1,022	1,081	1,220	1,371	1,511	1,659	1,797	1,949	2,123	2,315	2,508	2,722	2,960	3,232	n.a.
Debt service (billions of CFA francs)	258	292	298	294	289	280	274	260	260	264	272	300	323	351	n.a.
Net Foreign Assets Central Bank (billions of CFA francs)	368	724	795	873	959	1,053	1,156	1,269	1,394	1,530	1,680	1,845	2,026	2,224	2,442
CFA francs/SDR (period average)	769.5	765.6	765.6	765.6	765.6	765.6	765.6	765.6	765.6	765.6	765.6	765.6	765.6	765.6	n.a.
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

[1] Data are projections

[2] On October 3, 2016 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF until end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter.

[3] Total debt service includes IMF repurchases and repayments.

Table 9. Benin: Financial Soundness Indicators, 2011–17

	2011	2012	2013	2014	2015	2016	2017
	(Percent unless otherwise indicated)						
Regulatory capital to risk-weighted assets	12.5	12.8	12.9	12.7	12.6	9.5	12.4
Core capital to risk-weighted assets[1]	11.7	11.9	11.8	11.2	10.5	7.6	10.7
Provisions to risk-weighted assets	10.7	10.8	10.3	10.7	11.7	15.6	16.4
Capital to total assets	7.3	7.3	7.2	6.7	5.7	3.8	4.9
Composition and quality of assets							
Total loans to total assets	55.2	55.0	55.9	54.6	53.1	39.3	43.3
Concentration: Credit to the 5 largest borrowers (in terms of total capital)	92.9	92.3	75.1	88.6	113.1	...	...
Credit by sector[2]							
Agriculture, Forestry, and Fishing	2.9	2.6	2.9	3.1	3.2	...	...
Extractive Industries	2.2	1.6	1.8	2.0	2.0	...	...
Manufacturing	18.8	18.2	17.0	17.9	17.2	...	...
Electricity, Water, and Gas	3.2	3.2	3.7	3.9	4.2	...	...
Buildings and Public Works	6.7	6.7	7.8	8.7	9.4	...	...
Commerce, Restaurants, and Hotels	32.3	34.7	33.5	31.1	31.5	...	...
Transportation and Communication	11.2	10.0	11.2	9.3	9.5	...	...
Financial and Business Services	5.5	6.1	6.0	6.5	6.6	...	...
Other Services	17.2	16.8	16.2	17.0	16.4	...	...
Non-Performing Loans (NPLs)							
Gross NPLs to Total loans[3]	15.9	16.0	15.5	14.4	14.4	21.4	19.5
Provisioning rate	64.2	63.4	61.0	62.8	62.8	63.2	66.5
Net NPLs to total loans	6.4	6.5	6.6	6.1	5.9	9.1	7.5
Net NPLs to capital	47.8	48.8	51.1	50.0	54.9	95.2	66.6
Earnings and profitability[4]							
Average cost of borrowed funds	2.4	2.5	2.8	2.4	2.4	...	...
Average interest rate on loans	9.7	9.8	10.7	9.1	2.4	...	...
Average interest margin[5]	7.3	7.3	7.9	6.7	6.4	...	...
After-tax return on average assets (ROA)	1.2	0.9	0.9	1.1	1.2	...	...
After-tax return on average equity (ROE)	13.7	10.1	11.5	15.5	16.4	...	...
Noninterest expenses/net banking income	61.6	61.0	60.7	58.6	58.6	...	...
Salaries and wages/net banking income	26.4	25.7	26.5	25.4	25.4	...	...
Liquidity							
Liquid assets to total assets	33.6	32.5	32.2	30.9	29.4	...	...
Liquid assets to total deposits	46.1	45.8	46.1	45.9	43.8	...	...
Total loans to total deposits	84.3	86.2	90.0	89.5	87.0	68.4	73.4
Total deposits to total liabilities	72.9	71.1	68.5	63.4	67.1	57.4	59.0
Demand deposits to total liabilities[6]	37.8	36.5	35.5	34.5	35.4	24.3	26.3
Term deposits to total liabilities	35.1	34.6	33.0	32.8	31.7	33.1	32.7

Source: BCEAO.
Note: ... = not available.
[1] Tier 1 Capital.
[2] Identified sectors represent at least 80 percent of credit
[3] The improvement of NPLs since 2014 includes the reduced exposure by several banks to a business group that encountered difficulties in 2012-14.
[4] Some account elements available semi-annually.
[5] Excluding taxes on banking operations.
[6] Including savings accounts.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
External Risks			
Intensification of the risks of fragmentation /security dislocation in part of the Middle East, Africa, and Europe.	**High**	**Medium** Increased migrant flows if neighboring countries are affected.	Improve capacity to deal with migrant flows from neighboring countries.
Tighter global financial conditions.	**High**	**Low** Benin's banking system is integrated in WAEMU which would only be marginally affected (see interest rate shock scenario).	Reduce nonpriority spending to preserve programmed fiscal targets.
Adverse developments in Nigeria, including removal of oil subsidies.	**Low**	**High** Adverse security situation reduces trade revenues, and growth; cutting subsidy can cause fuel price spikes.	Accelerate the structural transformation of the economy to lessen its dependency on Nigeria; improve the business environment to support private sector growth and diversification.
Domestic Risks			
Rise in interest rate in regional financial markets.	**Medium**	**Medium** Higher costs of borrowing for government and business reduce economic activity.	Rely predominantly on concessional financing; optimize debt portfolio, and reduce borrowing needs; adjust investment level, if necessary.
Socio-political disturbances, including protracted strike by civil servants.	**Medium**	**High** Interruptions in the reform agenda, increase in current expenditures and resulting deterioration of fiscal position.	Build coalition of stakeholders to support the program and implement offsetting cuts in non-priority in case of non-programmed wage increases.
Intensification of financial sector risks.	**Low**	**Low** A surge in non-performing loans could affect banking sector stability.	Strengthen bank resolution and step up supervision and regulation of MFIs.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Increasing Fiscal Space to Preserve Debt Sustainability

Under the Extended Credit Facility (ECF) arrangement (2017–20), the authorities committed to create more fiscal space to finance the ambitious Government's Action Program (GAP), 2016–21 while preserving debt sustainability. This note draws on the recommendations of several TA missions to explore avenues to sustain the improvement in domestic revenue mobilization and enhance the efficiency of public spending.

SUSTAINING THE DOMESTIC REVENUE MOBILIZATION EFFORT

A. Closing the Gap with Benchmark Countries

1. Revenue mobilization improved under the ECF arrangement. Government revenue reached its lowest level in a decade in Benin, falling to 14.7 percent of GDP, in 2016. Against this background, domestic resource mobilization was made one of the key objectives under the ECF arrangement approved by the Executive Board in April 2017. The measures being implemented under the ECF arrangement are already bearing their fruits with the revenue-to-GDP ratio estimated to have reached 17.6 percent of GDP in 2017.

2. Despite this improvement, Benin still lags key comparators. Benin underperforms with respect to many WAEMU countries (Figure 1). Factors contributing to Benin's underperformance include:

- ***Heavy reliance on taxes on international trade.*** Taxes on international trade account for around half of the total tax revenue in Benin.

Figure 1. Benin and Comparators: General Government Tax Revenue, 2005-2016
(percent of GDP)

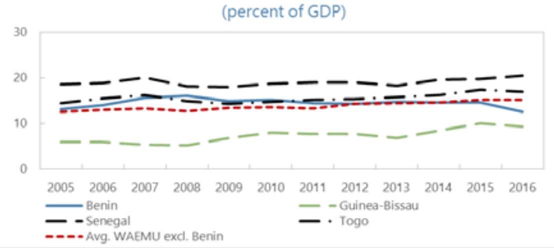
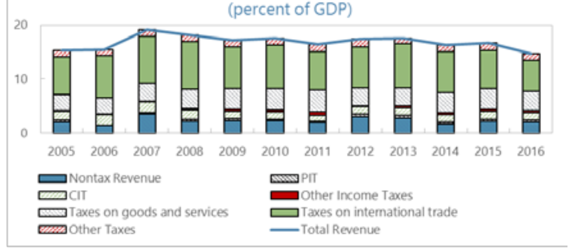


Figure 2. Benin: General Government Revenue Mix, 2005-2016
(percent of GDP)



Sources: WAEMU authorities and IMF staff calculations.

This is at odd with respect to the trend seen elsewhere in sub-Saharan Africa (SSA) where taxes on international trade account for 17.3 percent of total taxes on average (excl. Benin). Given the decrease in taxes on international trade due to various waves of trade liberalization, low-income countries are switching to non-trade based taxes.

- ***Non-trade tax mobilization is very low.*** Despite having a tax on international trade (in percent of GDP) that is twice the SSA average, Benin's total tax-to-GDP ratio is much lower than the SSA average (17.8 percent of GDP in 2015, excl. Benin), partly explained by the poor performance of Benin's non-trade revenue. Indeed, the analysis of the revenue mix in Benin (Figure 2) shows that direct taxes—personal and corporate income taxes—contribute little to government revenue while the contributions of taxes on good and services (mostly VAT) remained almost unchanged during the last decade.

B. Improving Non-Trade Tax Revenue

3. Pursuing reforms of tax administration. The authorities are implementing various reforms to modernize the tax administration to ensure a sustainable improvement in revenue collection. Notable progress has already been made in the implementation of the Strategic Orientation Plan of the Tax Administration (*Plan d'orientation stratégique de* l'administration—POSAF).[1] The forthcoming adoption of a plan to strengthen tax compliance should also help the tax administration to mobilize more revenue.

4. Rationalizing and reducing tax exemptions. Some tax exemptions are desirable either for administrative reasons or equity reasons. The latter relates mainly to education, medical or social welfare services, and for basic goods consumed primarily by the poor. However, many tax exemptions are not justifiable and are costly.

- ***Tax expenditures doubled in three years.*** In 2013, tax expenditures were estimated by authorities at CFAF 75.2 billion and by 2016, they reached CFAF 153.3 billion, or 23.9 percent of total tax revenues and 3 percent of GDP.[2]

- ***There is ample room to reduce tax expenditures.*** GSM mobile phone companies benefited from tax exemptions starting in 2007 for a period of 3 years renewed twice and then extended for 5 years in 2013. Non-renewal of these exemptions when they expire in 2018 is expected to generate additional revenues. Total tax expenditures are estimated at CFAF 17.5 billion in 2016, indicating the potential to mobilize more revenue.

- ***Develop a tax reference system to better estimate and reduce tax expenditures.*** Benin does not have yet a fiscal reference system. This implies that the estimate of tax expenditures remains approximate, making it difficult to develop a strategy to reduce them. The establishment of a fiscal reference system in 2018 should be the occasion for authorities to establish an action plan aimed at eliminating ineffective and/or inefficient tax expenditures. To enforce discipline in the issuance of tax exemptions, the authorities should also consider

[1] Of the actions planned in the POSAF, 53.2 percent are in progress, about 30 percent fully implemented and 15 percent not yet started.

[2] The IMF assesses tax expenditures at 2.4 percent against 3 percent by the authorities. The difference between the two estimates stems from the IMF's reprocessing of certain exemptions that are not considered as tax expenditures by the WAEMU directive.

beginning to publish on the internet the names of beneficiaries (whether individual or corporation) of nonconventional beneficiaries of tax expenditures.

5. Increasing the productivity and the efficiency of the collection of non-trade taxes. For a given tax base and a given standard rate in the WAEMU, Benin collect less value added taxes and less corporate income taxes than many WAEMU countries (Annex II ¶ Table 1). This points out to inefficiencies in the collection of taxes. These inefficiencies could be due to tax erosion related to tax policies (for example the tax exemptions discussed above) or an imperfect enforcement (low tax compliance discussed). The adoption and enforcement of the plan to strengthen tax compliance in addition to the rationalization and reduction of tax exemptions could help Benin to improve the efficiency of the collection of its taxes.

Table 1. Benin and Comparators: CIT Productivity and VAT C-Efficiency (Latest Available Year of Actual Data)

	Latest Year	CIT Productivity	Latest Year	VAT C-Efficiency	Latest Year	VAT Productivity
Benin	2015	0.05	2014	0.20	2013	0.37
Burkina Faso			2014	0.43	2016	0.34
Côte d'Ivoire	2015	0.08	2015	0.26	2015	0.20
Mali	2016	0.09	2015	0.35	2016	0.94
Niger	2015		2015	0.39	2015	0.29
Senegal	2016	0.06	2015	0.50	2015	0.42
Togo	2014	0.04	2015	0.61	2015	0.52
Avg, excl. Benin		0.07		0.42		0.45

Sources: WAEMU authorities and IMF Staff calculations.
Note: C-efficiency is defined as:
(VAT revenue) / [(private consumption * (standard VAT rate)] and VAT productivity is defined as the share of GDP collected for each percentage point of the standard VAT rate: (VAT revenue)/[GDP * (standard VAT rate)]

MAKING PUBLIC INVESTMENT MORE EFFICIENT IN BENIN

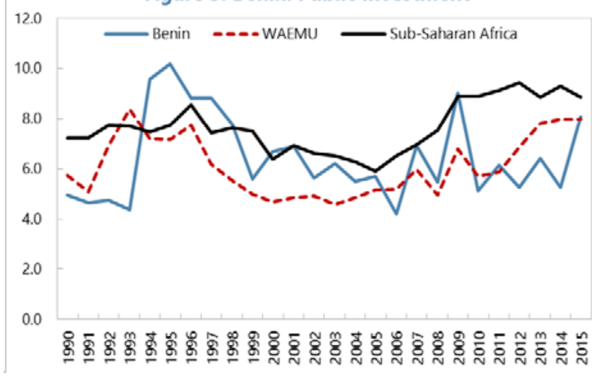
6. The Government's Action Program (GAP) envisions a large scaling up of public investment, despite well documented relatively low efficiency of public investment. Against this background, the government benefited from IMF[3] technical assistance that assessed Benin's public investment management and made recommendations to address the weaknesses identified by the mission.

7. Benin devotes a significant share of its GDP to public investment but the quality of infrastructure is perceived as low. Between 1990 and 2015, average public investment was 6.5 percent of GDP slightly above the average of 6.1 percent of GDP (Figure 3) recorded in the West

[3] *Evaluation de la Gestion des Investissements Publics au Bénin* by B. Imbert *et al.* (2018), IMF Fiscal Affairs Department, Technical Assistant Report; January 2018.

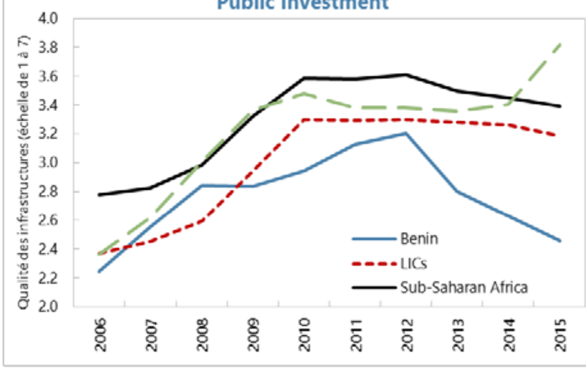
African Economic and Monetary Union (WAEMU). In addition, the share of investment expenditure in total budget expenditure is relatively high, averaging 31% over the same period. However, the perceived quality of infrastructure is below that of comparable countries and the situation has deteriorated sharply since 2012 (Figure 4), contrary to the WAEMU average.

Figure 3. Benin: Public Investment



Sources: World Economic Outlook and IMF staff calculations.

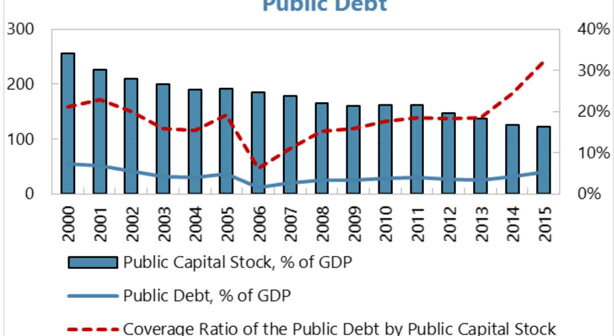
Figure 4. Benin: Perception of the Quality of Public Investment



8. The capital stock deteriorated steadily despite a high investment volume. Fixed capital stock dropped continuously from over 250 percent of GDP in 2000 to just 122 percent of GDP in 2015 (Figure 5). Since the stock of public capital reflects the availability of infrastructure in a country, the sharp erosion of the capital stock during this period indicates that either investments in new infrastructure were not made or the existing infrastructure was not well maintained. As a result, the coverage ratio of public debt by fixed capital has deteriorated.

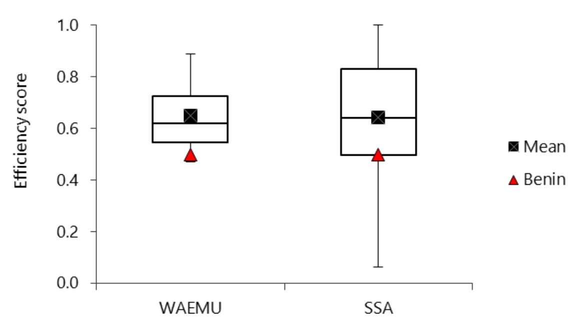
9. The methodology developed by the IMF confirms that public investment efficiency is relatively weak in Benin. With a score of 0.5, Benin appears relatively inefficient in terms of public

Figure 5. Benin: Stock of Public Capital and Public Debt



Sources: World Economic Outlook and IMF staff calculations.

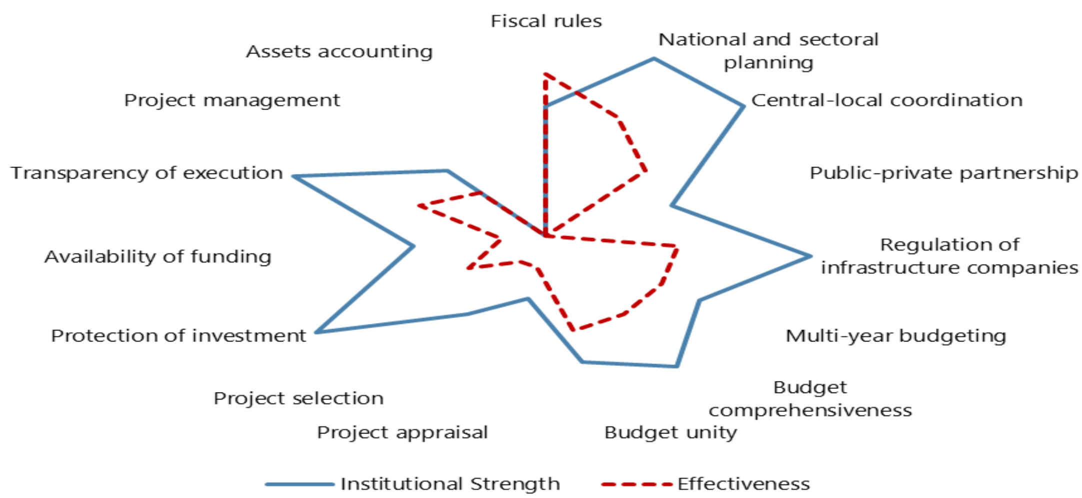
Figure 6. Benin: Indicator of Efficiency of Public Investment



investment compared to comparable countries (Figure 6). Indeed, WAEMU, sub-Saharan Africa and low-income developing countries all have higher scores of 0.65; 0.64 and 0.61, respectively.

10. The PIMA found important weaknesses in several phases of the investment management chain. The selection of projects as well as the ex-ante and ex-post evaluation are not systematic and procedures applied to select projects deserve to be reorganized in depth. This situation hinders project execution and the overall quality of public investment, which, as a result, encounter significant difficulties in the execution phase. The various phases of implementation analyzed by the PIMA obtain low scores, particularly for the protection of investments, the availability of funding, and project management, and project appraisal (Figure 7). This situation should be compared with the low rate of execution of investment expenditure, which has been observed for several years. Weaknesses in terms of capacity and information systems as well as consideration of maintenance and maintenance costs complete this diagnosis.

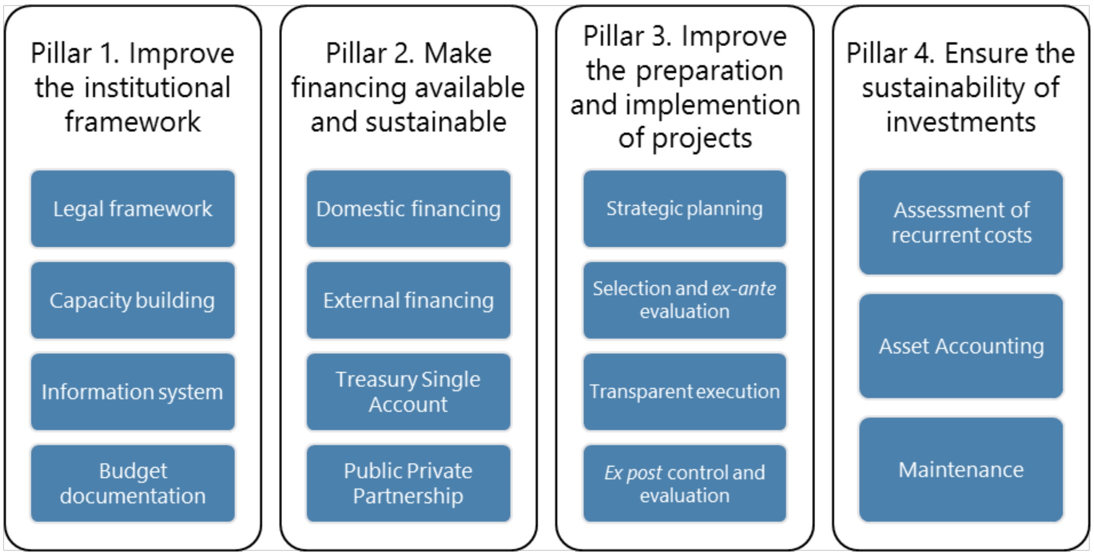
Figure 7. Benin: Summary Assesment of the Efficiency of Public Investment



Sources: January 2018 PIMA Report.

11. The PIMA mission proposed many measures to improve the efficiency of public investments. Four critical actions that can help structure an ambitious action plan for conducting the necessary reforms of the investment management framework in Benin are identified (Figure 8). They include: (i) improving the institutional framework, which includes capacity building; and the information system; (ii) the availability and sustainability of funding, which targets among other things the steering of Public-Private Partnerships (MEFP ¶26) and the development of the Treasury Single Account (TSA); (iii) upgrading of the preparation and implementation of investment projects; and finally (iv) considering the sustainability of investments. Specific action proposals detail these objectives (see the report for more details) and identify: (i) the implementation period; (ii) the responsible services and; (iii) the need for technical assistance.

Figure 8. Benin: Action Plan to Improve the Efficiency of Public Investment



Source: January 2018 PIMA Report.

Annex III. G20 Compact with Africa–Policy Matrix

Report to G20 Compact with Africa – Policy Matrix BENIN Goal: Improve framework conditions for private investment (domestic and foreign)			
Focus Areas	**Government action**	**Indicators and targets**	**Partner's supports**
Macroeconomic framework			
Macroeconomic framework Stability	Maintaining macroeconomic stability and reinforcement of Public Finances management	Present Value of public Debt-to-GDP ratio ≤ 50%; Inflation rate <3% ; Budget deficit <3% by 2019	**IMF :** Implementation of Economic and Financial reform 2017-2019 program supported by Extended Credit Facility (ECF) **AfDB** : Country risk assessement to provide access to AfDB sovereign lending on a case-by-case basis to finance flagship projects at improved terms and maintain debt sustainability **GIZ** : Capacity reinforcement in modelling and analysis. Technical support to rapid-impact initiatives and development of economic turning point indicator. Support for regional trade with best practices sharing platform **EU :** Implementation of governmental reforms in the agriculture, decentralisation and governance sectors supported by the EU budget supports
Domestic revenue mobilization	Dematerialization of fiscal and non-fiscal receipts' procedures and payments to Tax and Customs authorities (Linking database centers , e-declaration and e-payment, centralized fiscal administration databases)	100% of large firms to report and pay their taxes online by 2019 Ratio of Payments-to-number of VAT self-reporting forms: ≥ 60% by 2020 Tax revenue-to-GDP ratio target of 15.5% by 2020 vs. 13.5% as of 2017	**Canada :** Support for the Increase of Internal Revenues in Benin Project (PAARIB) **World Bank** : Fiscal Reform and Growth Development Policy Financing project (FRG) **EU** : Technical Assistance in the scope of additional support for the Good Governance for Development 2016-2020 framework
Public investment management	Public finance legal framework reinforcement (2018)	Comprehensive judicial framework for managing investments Coverage ratio for the different phases of public investment lifecycle by regulation: 100% in 2019.	**World Bank** : Public Investment Management and Governance Support Project (PIMGSP) **EU** : Additional support for the implementation of Public Finances Global Reforms Plan. Support Program for the Improvement of Economic Governance (PAGE)
	Operationalization of institutional framework for perennial public investment programming (budgeting in commitment authorizations and payment credits)	Proportion of Ministries presenting budgets in Commitment Authorization and in Payment Credits in 2019: 100%	**GIZ** : Reconstitution of Public Investment Program database. Diagnostic study of monitoring system for investment programs and projects. In-depth training for investment project cost evaluation **EU :** Additional support for the implementation of Public Finance Global Reforms Plan. Support Program for the Improvement of Economic Governance (PAGE)

Report to G20 Compact with Africa – Policy Matrix BENIN Goal: Improve framework conditions for private investment (domestic and foreign)			
Focus Areas	**Government action**	**Indicators and targets**	**Partner's supports**
Business Framework			
Business environment and regulation	Reinforcement of *Doing Business* indicator monitoring	Improve Benin's ranking to one of the top performers on the first five indicators by 2020	**World Bank** : International Finance Corporation (IFC)/ World Bank Group (WBG) support for implementation of *Doing Business* reforms (Benin Invest Advisory Project)
	Rationalization and simplification of procedures of Investment Code authorizations	Adoption of new investment code Investment code authorization processing time of less than 20 days	**World Bank** : Crossborder tourism competitivity project
	Set up Special Economic Zones (SEZs)	Development of all targeted SEZs by 2019 Technical partner identification and recruitement in 2018	
Investor protection and dispute resolution	Operationalization of new commerce jurisdictions created by 2017 law	Number of functional courts and appeals courts for commerce: 2 in 2018 and 4 by 2020 Legal dispute processing limit of 4 months maximum	**World Bank** : Competitiveness and Integrated Growth Opportunity Project (CIGOP) **EU** : Support program for reforms relative to the fight against corruption and impunity in the judicial sector. Support program for Private sector partners (improvement of commerce courts, increased number of specialized magistrates).
Use of standard clauses in PPP	Set up management framework for Public-Private Partnership contracts	Proportion of PPP projects using standard clauses : 80% in 2020	**World Bank** : WBG Technical assistance for the implementation of institutional framework for PPP projects and the preparation of PPP projects. **AfDB** : Technical Assistance from the Afican Judicial Support Facility for the capacity reinforcement and negociation of PPP contracts in the Energy and Mining sectors
Financing framework			
Reduce investment risks	Set up zoning system and electronic recording of property titles	Proportion of property titles delivered by new system Property title issuance waiting time	**AfDB** : Support for the elaboration of the 35 rural zoning maps in the scope of the land code reform
	Reinforce and diversify financing instruments for SMEs and agricultural firms (National Guarantee Fund, operationalize National Agricultural Development Fund)	Improving number of SME firms accessing bank credit financing to 20% by 2019	**World Bank** : Political reform-based guarantee (FRGC). Operationalization of National Agricultural Development Fund (NADF) **UE**: Support program for Sustainable Development of Agricultural Sector (PADDSA) – Reinforcement of national financing framework for the agricultural sector (NADF, FADEC etc.); European Fund for Sustainable Development Guarantee for reducing the investment risks, including for agriculture and SME financing in the framework of the External Investment Plan
Mobilization of private & institutional investments	Improve Benin's credit rating with debt restructuring and the support of internationally-renowned credit rating agencies	Improvement of resources mobilized by private sector and multilateral institutions	**AfDB** : Making partial credit guarantee available to improve sovereign debt issuance rating on international bond markets
	Reinforce access to opportunities offered by multilateral and bilateral institutions in order to reduce non-commercial risks for private and institutional investors	Number of projects financed via multilateral guarantee agencies	**World Bank** : Risk sharing facility project (IFC, WB) **EU:** European Fund for Sustainable Development Guarantee in five thematic areas as well as blended finance, including the form of risk capital and other risk sharing mechanisms, to leverage private financing in the framework of the External Investment Plan

Annex IV. External and Public Debt Sustainability

The rapid increase in domestic debt in recent years calls for strict adherence to the programmed fiscal consolidation path to preserve long-term debt sustainability. The December 2017 DSA update confirms a moderate risk of debt distress for Benin.

A. Underlying Assumptions in the DSA

1. The assumptions in the baseline scenario are consistent with the medium-term macroeconomic framework underlying the program envisaged under the ECF arrangement. Key macroeconomic assumptions are as follows:

- **Global environment.** The nominal exchange rate (FCFA/USD) is assumed to appreciate slightly by about 3 percent over the baseline horizon and stabilize in the medium and long term. The external demand from Benin's trading partners is projected to be stable.
- **Growth impact.** Growth assumptions have remained roughly stable relative to the September 2017 DSA. Real GDP is expected to grow, on average, by 6.4 percent over the horizon 2018–20, supported by a good performance of the agricultural sector, the ongoing recovery of the Nigerian economy, the scale up in public investment, and an uptake in private investment in response to expected improvement in infrastructure. Growth is expected to stabilize at 6.6 percent in 2021-2022.
- **Inflation.** Capital goods will be partly imported, and the effect on non-tradable would be muted by high unemployment and labor mobility in WAEMU. Inflation is projected to an average of 2.2 percent in 2018–22, below the WAEMU convergence threshold of 3 percent.
- **Fiscal impact.** Total government revenue is projected to increase from 14.7 percent of GDP in 2016 to 17.7 percent of GDP in 2020 as the expected reforms in tax policy and administration mature. The primary deficit remains below the levels initially programmed and turns into a surplus in 2021. The programmed fiscal consolidation path is expected to bring down the budget deficit (including grants) to below the WAEMU convergence criterion of 3 percent of GDP by 2019 and shift it to a surplus in 2022.
- **Current account impact.** As assumed in the December 2017 DSA, the current account deficit (including grants) is projected to peak in 2017, and would decline to 10.8 percent of GDP in 2018 and average 9.4 percent of GDP for 2019-22 as investment and import growth.
- **Financing.** Central government investment is expected to lower from 9.2 percent in 2017 to 8.6 percent in 2018 and average 5.8 percent over the period 2019-22. Such investment is financed by concessional resources but also domestic financing. Non-concessional PPG debt financing is also included. Also, the recent rise of FDI in construction, manufacturing, and services are projected to continue, in line with Benin's recent achievements in improving its *Doing Business indicators* (ranking increased by 4 places from 155th ranking in 2017 to 151th ranking in 2018).

B. External Debt Sustainability Analysis

2. The results of the external DSA show that Benin's debt dynamics are sustainable under the baseline scenario, facing a moderate risk of debt distress (Tables A1, A2 and Figure A1). In the baseline, all debt indicators remain below their relevant policy-dependent thresholds. The present value (PV) of debt-to-GDP ratio, debt-to-exports ratio, debt-to-revenue ratio and debt service-to-exports ratio remain safely under the debt distress threshold under the baseline. The PV of total PPG external debt is expected to rise from about 13 percent of GDP in 2018 to 14 percent of GDP on average for 2019–23, surging to 17.3 percent of GDP in 2038. The ratio would remain below the corresponding threshold of 40 percent of GDP throughout the projection period. Nonetheless, one indicator—the ratio of the PV of external debt to exports—exceeds its threshold temporarily, with a small margin (less than 10 percent) in the case of an extreme shock to exports, while the debt-to-GDP ratio and all debt service indicators remain below thresholds. In the historical scenario, the ratios of the PV of debt-to-GDP, PV of debt-to-exports, and PV of debt-to-revenue show breaches to the thresholds. Thus, overall, Benin's risk of external debt distress is assessed to be moderate.

C. Public Debt Sustainability Analysis

3. **Total public (external and domestic[1]) debt is projected to peak in 2018 and decline thereafter** (Tables, A3 and Figure A2). This is predicated on the strict adherence to the fiscal consolidation path underlying the ECF-supported program. The government's increased reliance on the regional financial market to finance public investment projects has increased the present value (PV) of public debt in 2016. However, liquidity pressures in the regional debt market in 2017 resulted in undersubscription of some of Benin's debt issuances, helping to bring the ratio of the PV of total public debt to GDP to 45.4 percent in 2017. Domestic public debt increased from about 8.6 percent of GDP to 32.3 percent of GDP between 2013 and 2017 to account for 60 percent of the total debt. Staff urged the authorities to remain steadfast in the implementation of the fiscal reforms to ensure that the programmed fiscal consolidation path is achieved to support the public debt anchor and preserve long-term debt sustainability. The PV of debt-to-GDP ratio remains consistently below the indicative benchmark of 56 percent, a level that research has linked to increased probability of debt distress. The debt level also remains below the WAEMU convergence criteria of 70 percent of GDP. In the most extreme shock scenario (Figure A2), the peak PV of debt-to-GDP ratio remains well below the 56 percent threshold. In the historical scenario, the ratio of the PV of debt-to-GDP shows a breach to the threshold. Overall, the dynamics in total public debt are consistent with a moderate risk of debt distress.

[1] Consistent with the Technical Memorandum of Understanding, all debt contracted in the WAEMU regional financial market is treated as domestic.

Table A1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2015–38 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**21.3**	**22.5**	**22.1**			**24.0**	**25.6**	**26.0**	**25.7**	**26.2**	**26.4**		**26.9**	**26.2**	
of which: public and publicly guaranteed (PPG)	21.3	22.5	22.1			24.0	25.6	26.0	25.7	26.2	26.4		26.9	26.2	
Change in external debt	1.5	1.2	-0.4			1.9	1.6	0.4	-0.2	0.5	0.2		0.4	-0.5	
Identified net debt-creating flows	11.0	7.3	6.1			5.6	3.8	3.4	2.6	2.6	1.4		0.4	-0.5	
Non-interest current account deficit	**8.7**	**9.2**	**10.7**	**8.2**	**1.1**	**10.4**	**8.7**	**8.4**	**7.7**	**7.4**	**6.2**		**3.8**	**1.7**	3.4
Deficit in balance of goods and services	12.1	12.8	14.5			14.0	12.7	12.5	11.6	11.3	10.2		7.3	4.4	
Exports	17.6	16.3	18.4			19.6	20.5	20.7	20.9	21.5	21.8		27.5	32.9	
Imports	29.7	29.2	32.9			33.7	33.3	33.2	32.5	32.8	32.0		34.8	37.4	
Net current transfers (negative = inflow)	-3.1	-3.4	-3.6	-4.4	1.1	-3.5	-3.9	-4.1	-3.8	-3.9	-3.9		-3.1	-2.3	-2.9
of which: official	-1.6	-1.7	-1.7			-1.6	-1.9	-1.7	-1.6	-1.6	-1.5		-1.5	-1.5	
Other current account flows (negative = net inflow)	-0.3	-0.3	-0.2			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.4	-0.5	
Net FDI (negative = inflow)	**-1.4**	**-1.4**	**-3.4**	**-2.4**	**1.0**	**-4.1**	**-4.1**	**-4.0**	**-4.0**	**-4.0**	**-4.0**		**-2.6**	**-1.4**	-1.8
Endogenous debt dynamics 2/	**3.8**	**-0.5**	**-1.3**			**-0.7**	**-0.9**	**-1.0**	**-1.1**	**-0.9**	**-0.8**		**-0.8**	**-0.7**	
Contribution from nominal interest rate	0.4	0.2	0.4			0.4	0.5	0.6	0.6	0.6	0.7		0.4	0.5	
Contribution from real GDP growth	-0.5	-0.8	-1.2			-1.1	-1.4	-1.6	-1.7	-1.5	-1.5		-1.2	-1.2	
Contribution from price and exchange rate changes	3.9	0.1	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-9.5**	**-6.1**	**-6.5**			**-3.7**	**-2.2**	**-2.9**	**-2.9**	**-2.1**	**-1.2**		**0.0**	**0.0**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	12.9			13.0	13.5	13.8	13.8	14.2	14.5		16.4	17.3	
In percent of exports	...	...	70.2			66.3	65.8	66.8	65.9	65.9	66.5		59.5	52.4	
PV of PPG external debt	**...**	**...**	**12.9**			**13.0**	**13.5**	**13.8**	**13.8**	**14.2**	**14.5**		**16.4**	**17.3**	
In percent of exports	**...**	**...**	**70.2**			**66.3**	**65.8**	**66.8**	**65.9**	**65.9**	**66.5**		**59.5**	**52.4**	
In percent of government revenues	**...**	**...**	**73.6**			**74.0**	**78.9**	**77.9**	**75.7**	**76.0**	**76.8**		**90.1**	**89.4**	
Debt service-to-exports ratio (in percent)	**5.4**	**4.6**	**5.1**			**6.2**	**5.6**	**5.8**	**5.8**	**5.7**	**6.0**		**3.1**	**3.7**	
PPG debt service-to-exports ratio (in percent)	**5.4**	**4.6**	**5.1**			**6.2**	**5.6**	**5.8**	**5.8**	**5.7**	**6.0**		**3.1**	**3.7**	
PPG debt service-to-revenue ratio (in percent)	**5.7**	**5.1**	**5.4**			**6.9**	**6.7**	**6.8**	**6.7**	**6.6**	**6.9**		**4.7**	**6.3**	
Total gross financing need (Billions of U.S. dollars)	0.7	0.7	0.8			0.8	0.7	0.7	0.7	0.7	0.6		0.5	0.7	
Non-interest current account deficit that stabilizes debt ratio	7.2	8.0	11.2			8.5	7.2	7.9	7.9	6.9	6.0		3.4	2.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.1	4.0	5.6	4.2	1.8	6.0	6.3	6.7	7.1	6.2	6.1	6.4	4.8	4.8	5.0
GDP deflator in US dollar terms (change in percent)	-16.4	-0.6	2.1	0.5	8.2	12.0	3.3	2.2	2.1	1.6	2.1	3.9	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.5	1.2	1.7	1.5	0.2	2.2	2.3	2.4	2.4	2.6	2.7	2.4	1.6	1.8	1.9
Growth of exports of G&S (US dollar terms, in percent)	-5.0	-4.2	21.6	7.4	17.0	26.4	15.1	9.7	10.6	10.7	10.0	13.8	7.0	8.0	10.2
Growth of imports of G&S (US dollar terms, in percent)	-18.2	1.5	21.7	6.2	13.7	21.4	8.6	8.7	7.1	8.9	5.5	10.0	7.5	7.5	8.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	44.6	44.3	44.8	45.2	45.6	45.1	44.9	39.6	35.1	38.2
Government revenues (excluding grants, in percent of GDP)	16.7	14.7	17.6			17.6	17.1	17.7	18.2	18.6	18.9		18.2	19.3	18.7
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.1			0.2	0.2	0.2	0.1	0.2	0.2		0.2	0.2	
of which: Grants	0.0	0.1	0.1			0.2	0.2	0.2	0.1	0.2	0.2		0.2	0.2	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.1	3.3	3.1	2.2	2.3	2.2		1.8	1.2	1.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			59.5	62.0	63.7	60.6	59.3	58.0		53.9	48.0	51.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	8.3	8.6	9.2			11.0	12.1	13.1	14.4	15.5	16.8		24.4	47.5	
Nominal dollar GDP growth	-14.7	3.4	7.8			18.8	9.9	9.0	9.3	7.8	8.3	10.5	6.9	6.9	7.2
PV of PPG external debt (in Billions of US dollars)			1.3			1.4	1.6	1.8	2.0	2.2	2.5		4.0	8.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.0	1.9	1.5	1.3	1.5	1.6	1.6	1.5	1.0	1.4
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.3	0.3	0.4	0.4	0.4	0.5		0.5	0.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.6			12.7	13.1	13.4	13.4	13.8	14.1		16.1	17.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	61.3			58.3	57.8	57.4	58.3	58.4	58.9		55.5	50.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	4.5			5.5	4.9	5.0	5.2	5.1	5.3		2.9	3.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table A2. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38

(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of debt-to GDP ratio								
Baseline	13	14	14	14	14	15	16	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	13	15	16	18	20	23	40	62
A2. New public sector loans on less favorable terms in 2018-2038 2	13	15	16	16	17	19	23	28
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	13	14	15	15	15	16	18	19
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	13	16	21	21	21	21	22	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	13	15	17	17	18	18	20	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	13	16	18	18	18	18	19	18
B5. Combination of B1-B4 using one-half standard deviation shocks	13	19	27	27	27	27	27	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	13	19	20	20	20	21	23	24
PV of debt-to-exports ratio								
Baseline	66	66	67	66	66	66	60	52
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	66	72	80	87	95	107	144	189
A2. New public sector loans on less favorable terms in 2018-2038 2	66	71	76	78	81	85	84	85
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	66	66	67	66	66	67	60	52
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	66	102	159	154	151	149	122	90
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	66	66	67	66	66	67	60	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	66	77	88	85	84	84	71	56
B5. Combination of B1-B4 using one-half standard deviation shocks	66	98	140	136	133	131	106	77
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	66	66	67	66	66	67	60	52
PV of debt-to-revenue ratio								
Baseline	74	79	78	76	76	77	90	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	74	86	93	100	110	124	218	322
A2. New public sector loans on less favorable terms in 2018-2038 2	74	85	88	90	94	98	128	145
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	74	82	85	82	83	84	98	97
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	74	96	120	114	113	112	119	99
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	74	89	97	94	95	96	112	111
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	74	92	102	98	97	97	107	95
B5. Combination of B1-B4 using one-half standard deviation shocks	74	111	153	146	143	141	150	122
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	74	112	110	107	108	109	127	126

Table A3. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	42.4	49.5	54.6			56.8	55.0	51.2	47.6	44.4	40.7		34.6	34.3	
of which: foreign-currency denominated	21.3	22.5	22.1			24.0	25.6	26.0	25.7	26.2	26.4		26.9	26.2	
Change in public sector debt	12.0	7.1	5.1			2.3	-1.8	-3.8	-3.6	-3.2	-3.7		0.4	-0.4	
Identified debt-creating flows	9.8	4.9	0.6			-0.5	-2.2	-3.2	-3.6	-3.5	-3.9		-0.4	-0.1	
Primary deficit	7.3	4.8	3.9	2.7	2.2	2.4	-0.1	-1.2	-1.6	-2.2	-2.6	-0.9	0.6	0.8	0.4
Revenue and grants	17.3	15.3	18.6			19.0	18.8	19.4	19.3	19.6	19.8		19.0	19.8	
of which: grants	0.6	0.7	1.1			1.4	1.7	1.7	1.0	1.0	0.9		0.8	0.5	
Primary (noninterest) expenditure	24.6	20.1	22.6			21.4	18.7	18.2	17.7	17.4	17.2		19.6	20.6	
Automatic debt dynamics	2.5	0.2	-3.4			-3.0	-2.1	-2.0	-2.1	-1.3	-1.4		-1.0	-0.9	
Contribution from interest rate/growth differential	-0.2	-0.5	-1.0			-1.9	-1.8	-2.0	-2.1	-1.3	-1.4		-1.0	-0.9	
of which: contribution from average real interest rate	0.5	1.1	1.6			1.2	1.6	1.4	1.3	1.5	1.2		0.5	0.7	
of which: contribution from real GDP growth	-0.6	-1.6	-2.6			-3.1	-3.4	-3.4	-3.4	-2.8	-2.6		-1.6	-1.6	
Contribution from real exchange rate depreciation	2.6	0.7	-2.4			-1.1	-0.3	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.2	2.1	4.5			2.8	0.4	-0.6	0.1	0.3	0.2		0.8	-0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	45.4			45.9	42.9	39.0	35.6	32.4	28.8		24.1	25.3	
of which: foreign-currency denominated	...	...	12.9			13.0	13.5	13.8	13.8	14.2	14.5		16.4	17.3	
of which: external	...	...	12.9			13.0	13.5	13.8	13.8	14.2	14.5		16.4	17.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	14.7	12.1	13.6			13.2	10.6	8.5	6.9	5.3	3.9		3.8	4.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	243.6			241.2	227.8	201.2	185.1	164.9	145.4		126.7	127.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	258.4			260.7	250.6	219.9	195.5	173.8	152.3		132.2	131.1	
of which: external 3/	...	...	73.6			74.0	78.9	77.9	75.7	76.0	76.8		90.1	89.4	
Debt service-to-revenue and grants ratio (in percent) 4/	14.4	18.2	35.9			42.1	42.6	37.5	33.3	29.3	25.3		9.3	9.9	
Debt service-to-revenue ratio (in percent) 4/	14.9	19.0	38.0			45.5	46.8	41.0	35.2	30.9	26.5		9.7	10.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.7	-2.3	-1.1			0.2	1.7	2.6	2.0	0.9	1.2		0.2	1.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.1	4.0	5.6	4.2	1.8	6.0	6.3	6.7	7.1	6.2	6.1	6.4	4.8	4.8	5.0
Average nominal interest rate on forex debt (in percent)	1.5	1.2	1.7	1.5	0.2	2.2	2.3	2.4	2.4	2.6	2.7	2.4	1.6	1.8	1.9
Average real interest rate on domestic debt (in percent)	1.9	4.0	5.0	1.6	3.4	3.8	4.9	5.0	5.3	6.2	6.1	5.2	8.8	9.4	8.8
Real exchange rate depreciation (in percent, + indicates depreciation	13.4	3.2	-10.9	2.4	8.1	-5.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.1	-0.3	0.0	2.2	2.9	2.0	2.2	2.2	2.1	1.6	2.1	2.0	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percer	34.2	-14.9	18.4	3.8	13.3	0.7	-7.0	3.7	4.2	4.4	5.0	1.8	10.0	4.8	6.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	44.6	44.3	44.8	45.2	45.6	45.1	44.9	39.6	35.1	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

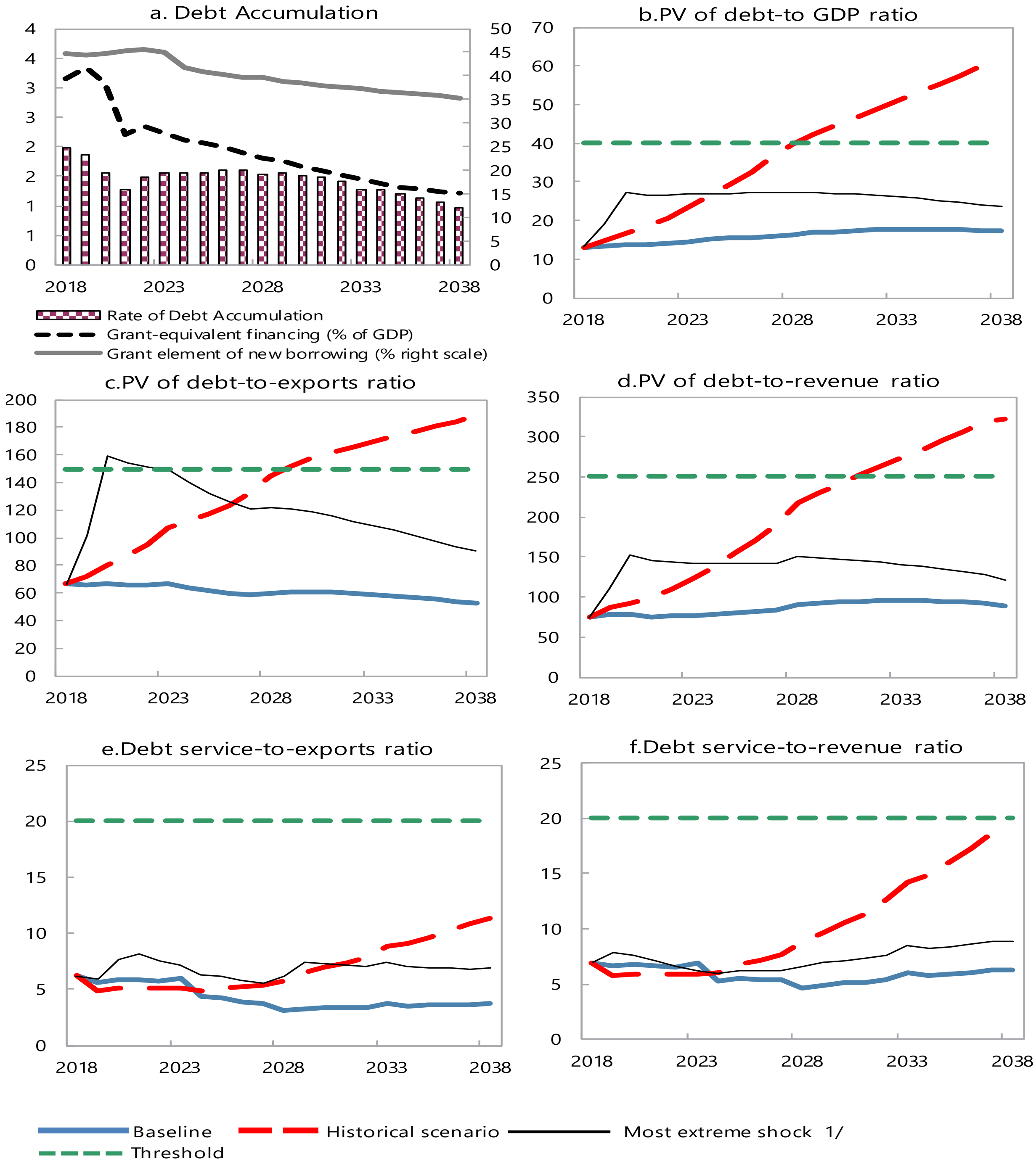
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A4. Benin: Sensitivity Analysis for Key Indicators of Public Debt 2018–38

	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	46	43	39	36	32	29	24	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	45	45	44	44	44	51	53
A2. Primary balance is unchanged from 2018	46	44	42	41	40	39	43	44
A3. Permanently lower GDP growth 1/	46	43	39	36	33	29	26	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	46	45	43	40	37	34	32	40
B2. Primary balance is at historical average minus one standard deviations in 2019-202	46	46	45	42	38	34	28	27
B3. Combination of B1-B2 using one half standard deviation shocks	46	46	47	43	40	37	33	38
B4. One-time 30 percent real depreciation in 2019	46	47	42	38	34	30	24	24
B5. 10 percent of GDP increase in other debt-creating flows in 2019	46	49	45	41	37	33	27	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	241	228	201	185	165	145	127	128
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	241	241	229	230	225	221	266	268
A2. Primary balance is unchanged from 2018	241	236	219	214	206	199	228	224
A3. Permanently lower GDP growth 1/	241	228	201	186	166	146	136	171
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	241	237	221	208	190	171	170	200
B2. Primary balance is at historical average minus one standard deviations in 2019-202	241	244	235	216	193	171	146	136
B3. Combination of B1-B2 using one half standard deviation shocks	241	246	239	224	204	184	175	192
B4. One-time 30 percent real depreciation in 2019	241	250	218	198	174	151	125	120
B5. 10 percent of GDP increase in other debt-creating flows in 2019	241	261	230	212	189	167	143	134
Debt Service-to-Revenue Ratio 2/								
Baseline	42	43	37	33	29	25	9	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	43	39	36	33	30	14	20
A2. Primary balance is unchanged from 2018	42	43	38	34	30	27	12	17
A3. Permanently lower GDP growth 1/	42	43	38	34	30	26	10	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	42	44	40	36	32	28	11	14
B2. Primary balance is at historical average minus one standard deviations in 2019-202	42	43	38	34	30	26	10	11
B3. Combination of B1-B2 using one half standard deviation shocks	42	44	40	36	32	28	11	14
B4. One-time 30 percent real depreciation in 2019	42	44	40	36	32	28	12	14
B5. 10 percent of GDP increase in other debt-creating flows in 2019	42	43	38	35	30	26	10	11

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

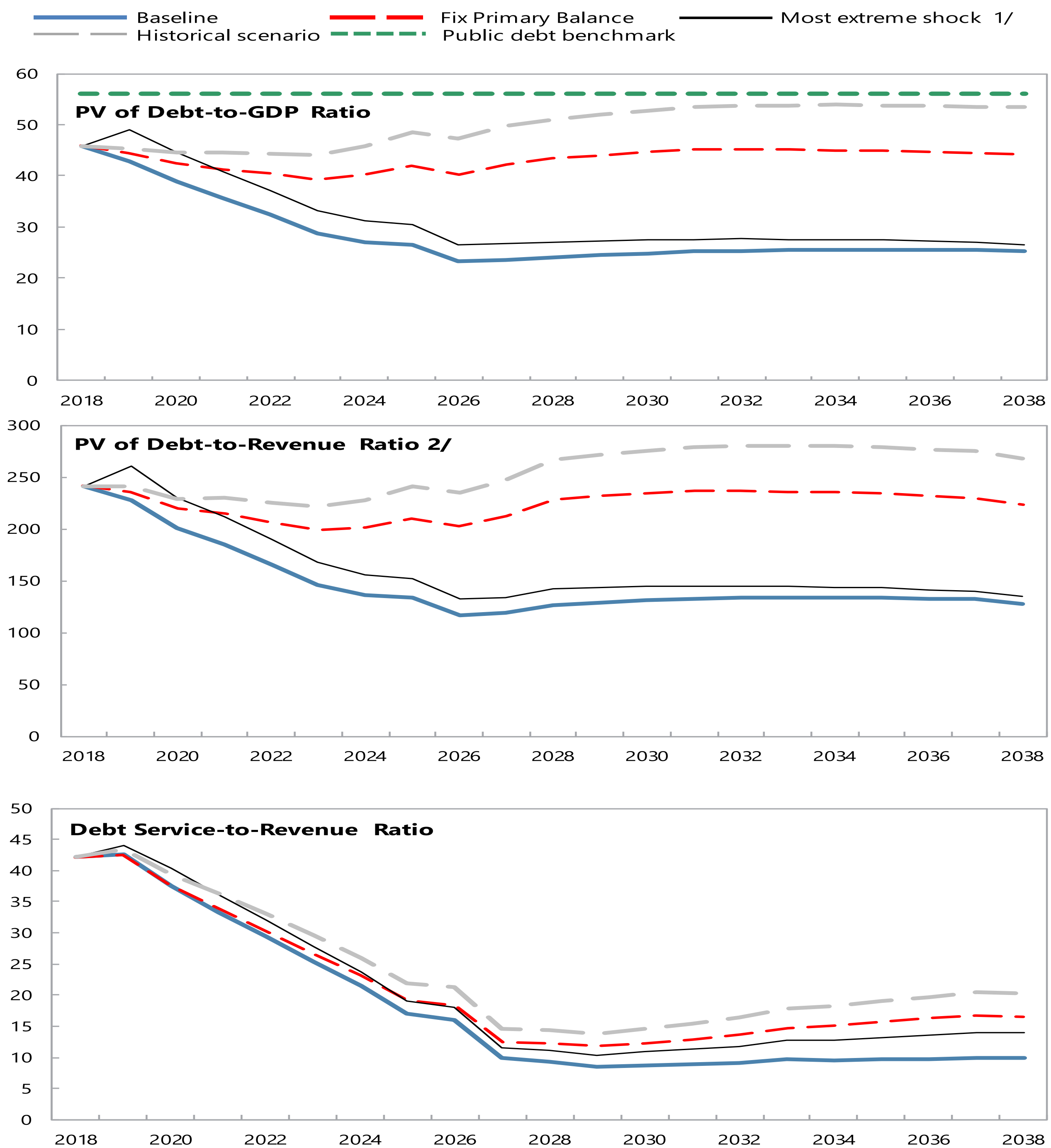
Figure A1. Benin: Indicators of Public and Publicly Guaranteed External Debt under the Program, 2018–38 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure A2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2018–38 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2028.
2/ Revenues are defined inclusive of grants.

Annex V. Capacity Development Strategy for FY 2018

Overall Assessment of Capacity Development

Implementation of macroeconomic policies in Benin has generally been satisfactory. The authorities showed ownership of the program and underlying reform agenda. Nevertheless, progress is lagging in implementing governance, transparency, and accountability reforms due largely to lack of political support in parliament. Coordination issues and limited resources allocation weigh on the overall impact of capacity development (CD) activities. The CD program in Benin and the associated TA delivery are intrinsically interweaved with the ECF arrangements' priorities.

As a fragile low-income country, Benin faces capacity and institution building challenges, which are being addressed with tailored technical assistance. Enhancing domestic revenue mobilization (revenue administration and tax policy) and improving budget preparation and execution will be essential to preserve debt sustainability in the longer term. These key priorities will also require reforms to strengthen economic governance (public finance management systems) and improve real sector statistics, government, and external sector statistics, including, oversight of public enterprises and other public entities.

Program engagement has contributed in the past to build capacity in Benin. However, there have been highs and lows regarding TA implementation. Key achievements include the following:

- Creation of a Single Treasury Account;
- Increased capacity to formulate economic and financial policies under the ECF-supported program, including macroeconomic forecasts (2015–17);
- Enhanced production of budget execution data and reports (2015–17); and
- Better performance of the tax and customs administrations, resulting in stronger revenue mobilization outcomes.

Nonetheless, there is room to improve the impact of the CD activities with more efforts needed to increase the efficiency of public expenditures and strengthen further public debt management. Furthermore, TA implementation is being compromised by data gaps (lack of relevant and timely indicators), including poor data management and data analysis.

Forward Looking Priorities

The TA strategy for Benin should focus on revenue and customs administration, PFM—focusing on budget execution—debt management, national accounts, tax policy, and enhancing the quality of macroeconomic data. In particular:

- Public Investment Management (PIM), needs to be improved to ensure efficiency and transparency in investment project selection, and monitoring.
- An SOEs unit was created in 2017, but oversight is weak and still need to be strengthened and consolidated.

- Internal audit and control methods need also to be strengthened by using professional standards and systematic risk-based approach—in particular, related to budget execution control and external audit including full implementation of the Court of Accounts.
- To promote financial stability, the authorities should continue strengthening the risk-based supervision of banks and micro finance institutions and reinforce the crisis resolution framework.

The turnover of senior officials and technical-level staff has compromised absorption capacity and TA delivery. In addition, lack of appropriate infrastructure and institutional coordination—in particular, at customs and tax administrations—has impeded an effective technical delivery. For FY 2018, key priorities and objectives include:

Priorities	Objectives
Tax Policy	Minimize tax expenditures and simplify taxes
Tax Administration	Strengthen tax compliance
Customs Administration	Improve management and governance
Public Financial Management	• Consolidate progress on the medium-term expenditure framework
	• Enhance the efficiency of public spending
	• Improve risk assessment and monitoring of contingent liabilities (SOEs and PPPs)
	• Strengthen fiscal reporting and accounting
Statistics	• National account: update base year and move to 2008 SNA, including rebasing of national accounts;
	• External statistics: improve both current and financial account data collection and quality
	• Enhance e-GDDS.

The main risk to capacity development is weak absorptive capacity, which could be mitigated by carefully selecting and designing the TA programs to tailor to the local audience's need.

Authorities' Views

The authorities approve the orientation of the capacity building strategy. They consider that the strategy and objectives are formulated in an appropriate manner for the country and are consistent with the strategic orientations of the GAP, 2016–21, presented by the authorities in December 2016. Given the current absorptive capacity of technical assistance, the authorities have recommended that volumes and medium-term priorities be adjusted appropriately to achieve effective delivery.

Appendix I. Letter of Intent

REPUBLIC OF BENIN
Fraternity-Justice-Labor

MINISTRY OF ECONOMY
AND FINANCE

The Minister

To:
Ms. Christine LAGARDE
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Cotonou, June 15, 2018

Dear Ms. Lagarde:

Benin has experienced satisfactory economic growth in recent years, owing to the stability of the domestic environment. The data for end-December 2017 support the 5.6 percent growth forecast for 2017. Agricultural production remained strong, albeit below the initial projections, thanks to the robust performance of the cotton sector. Public Works and Civil Engineering (BTPs) made considerable progress in 2017 as a corollary of the growth of public investment. Signs of recovery in Nigeria also had a positive spillover effect on Benin's foreign trade in 2017. The average annual rate of inflation in 2017 was 0.1 percent, with an initially negative value during the first half of the year, which then accelerated at the end of the period, driven by the appreciation of the naira.

The implementation of the Government's Action Program (GAP), together with the launch of major structural reforms included in the implementation of the economic and financial program (2016–19) concluded with the International Monetary Fund (IMF), made it possible to sustain the pace of economic growth. Improvement in the international environment, particularly in Nigeria, also contributed to the recovery of economic activity, which occurred in a context of low inflation, control of the fiscal deficit, and a favorable trend of the current account balance.

The fiscal deficit (including grants) was contained at 5.9 percent of GDP in 2017, well below the programmed level (7.9 percent of GDP), due mainly to the mobilization of more resources than initially programmed. This deficit is expected to shrink further in 2018 to 4.7 percent of GDP. The current account deficit (including grants) is expected to peak at 11.1 percent of GDP in 2017, reflecting the increase in investment-related imports.

The supplementary Memorandum of Economic and Financial Policies (MEFP) attached to this letter describes the progress made in implementing the economic and financial program supported by the Extended Credit Facility (ECF) and sets out the additional measures we are taking to underpin the objectives of the 2018 program. In this regard, we are proposing two new structural benchmarks related to public investment management. The results of the economic and financial program are satisfactory. All the end-2017 quantitative performance criteria, as well as all the continuous performance criteria, were met. Likewise, all the structural benchmarks for end-December 2017 were met by that time.

The government is convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of the ECF-supported program. It will undertake all additional measures that may be necessary to this end and will consult the IMF on the adoption of such measures prior to any revision of the policies outlined in the attached MEFP, in accordance with the Fund's policies concerning such consultations. The government will provide IMF staff with any information that may be needed to monitor implementation of the program and achievement of the program objectives, as set out in the attached Technical Memorandum of Understanding (TMU). The government authorizes the IMF to publish this letter and its attachments on its external website, as well as the IMF staff report, following approval by the IMF Executive Board of the second review under the ECF arrangement. We would like to request the conclusion of the second review under the ECF arrangement, a modification of a performance criterion, and the disbursement of SDR 15.917 million.

Sincerely yours,

/s/

Mr. Romuald Wadagni

Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2018–19

1. This report is an update of the Memorandum of Economic and Financial Policies (MEFP) of November 2017 attached to the Staff Report for the first review of the ECF-supported program and the Article IV consultation. The document describes recent economic development and sets out the policies that the government intends to implement in the 2018–19 period. The latter are expected to enable the authorities to capitalize on the country's good economic performance and the fiscal consolidation efforts of the new government since it took office in April 2016. The MEFP will also outline the structural objectives and benchmarks for 2018, after describing those for 2017.

RECENT ECONOMIC DEVELOPMENTS

2. Benin has experienced satisfactory economic growth in recent years, owing to the stability of the domestic environment. The data for end-December 2017 support the 5.6 percent growth forecast for 2017. Agricultural production remained strong, albeit below the initial projections, thanks to the robust performance of the cotton sector.[1] In contrast, food production increased less than expected. As a result, the primary sector grew 3.7 percent in 2017 instead of the forecast 5.6 percent. The secondary sector grew significantly in 2017, thanks in large part to the BTP sector, which posted an added-value growth rate in the range of 18 percent. Similarly, manufacturing benefited from the effects of the end of the crisis in Nigeria and the solid performance of the ginning industries. Nigeria's recovery also had a positive impact on Benin's foreign trade in 2017. Compared to 2016, exports increased by 57.9 percent in value terms in the third quarter of 2017. Imports grew 18.6 percent in value terms during the same period. The average rate of inflation was 0.1 percent in 2017, owing to an end-period acceleration caused by the rise in food prices and expenditures related to the use of vehicles brought about by the appreciation of the naira.

3. In response to the sharp increase in public expenditure in the 2014–15 period, the new government made significant adjustments to reduce the fiscal deficit. The sizable increase in public expenditure between 2014 and 2015, chiefly attributable to the holding of presidential elections in March 2016, led the new government to submit a revised budget to the National Assembly (NA) in July 2016. The revised budget included major reductions in recurrent expenditure and made it possible to substantially lower the overall fiscal deficit (including grants) to 6.0 percent of GDP, compared to 8.0 percent in 2015. In 2017, the improvement in domestic resource mobilization, together with the containment of current expenditure, led to an overall fiscal deficit (including grants) of 5.9 percent of GDP, well below the program projection (7.9 percent). The mobilized resources amounted to CFAF 944.4 billion at end-December 2917, up from the initial program target of CFAF 843.9 billion. This strong revenue performance is explained by the very good performance of nontax revenue, which made up for the shortfall in customs revenue (approximately CFAF 20 billion),

[1] Cotton production of 530,000 tons is expected, compared to an initial forecast of 500,000 tons, plus an estimated 451,120 tons from the preceding crop years, representing an increase of 17.5 percent between 2016 and 2017.

while tax revenue nearly reached the set target (CFAF 396.8 billion, compared to a target of CFAF 402.5 billion). Nontax revenue totaled CFAF 231.6 billion, as opposed to an initial target of CFAF 104.6 billion. The end-December 2017 indicative target for priority social expenditure (CFAF 160 billion on a payment order basis) was met (CFAF 168.3 billion on a payment order basis), representing an achievement rate of 105 percent.

4. The debt sustainability analysis for Benin, carried out in September 2017, indicated a moderate risk of debt distress. However, because of delays in the disbursements of foreign commitments, the government's increased reliance on the domestic and regional financial market offering less concessional terms to finance public investment projects under the Government's Action Program (GAP) increased the present value of the debt, which rose from 42.7 percent of GDP in 2016 to 45.4 percent in 2017. Moreover, the short maturity of issues on the regional market increases the risk of domestic debt refinancing in the short term, necessitating the active management and rescheduling of such debt. The average coverage rate of the initial issues of government securities in 2018 is approximately 64 percent, which raises the question of the refinancing of domestic debt maturing that year.

5. The country's external position deteriorated in 2017. Despite a sharp increase in exports as a result of the strong performance of the cotton sector, the current account deficit (including grants) widened from 9.4 percent of GDP in 2016 to 11.1 percent in 2017, essentially because of a significant rise in imports brought about by the increase in investments related to the start of implementation of the GAP projects. The external position is expected to strengthen gradually in 2018 and to a greater extent in 2019, driven by the sustained growth of exports and a decline in imports caused by the slowing of public investment. This improvement in Benin's external position is expected to contribute to the growth of the WAEMU's international reserves.

6. The high level of nonperforming loans persists, although a slight improvement was noted in 2017. The ratio of nonperforming loans to total loans fell from 21.4 percent in 2016 to 19.5 percent in 2017. At the same time, the banking system's capital ratio strengthened, going from 9.4 percent at end-December 2016 to 12.4 percent at end-December 2017 thanks to the ambitious reforms undertaken by the regional central bank (BCEAO) to modernize the financial sector in accordance with the Basel II/III principles. These reforms include a gradual increase in the minimum capital requirement, as well as the entry into force of a new prudential arrangement and a new chart of accounts on January 1, 2018. The liquidity ratio (total loans/total deposits) stood at 73.4 percent. The heavy concentration of the bank loan portfolio (loans to the 5 largest borrowers/net worth) remains a source of concern. Moreover, Benin's banking sector now includes a new bank named Sonibank, Benin Branch. This brings the total number of banks to 15.

7. As in the case of banks, the level of nonperforming loans in the microfinance sector remains high, in a context of rapidly growing loans and deposits. Progress was made in closing unauthorized microfinance institutions (MFIs). A new regional supervision plan is also being adopted and the regional financial inclusion strategy is being implemented. Steps were also taken to rehabilitate the microfinance sector, particularly by improving the quality of financial and accounting information through the implementation in 2016 of the centralized I.T. solution for monitoring of decentralized financial systems (SICS-SFD).

IMPLEMENTATION OF THE 2017 PROGRAM

8. Program implementation is satisfactory overall. The available data and information show that all the quantitative performance criteria (QPC) at end-December 2017, as well as all the continuous performance criteria (CPC) were met. The same is true of all the structural benchmarks. The status of the QPCs at end-December 2017 is as follows:

- *Net domestic financing (NDF) of the government,* defined as the sum of net bank credit to the government and net nonbank financing of the government, amounted to CFAF 185.9 billion under an adjusted ceiling of CFAF 187.0 billion.
- The *basic primary fiscal balance*, defined as the difference between total fiscal revenue and basic primary fiscal expenditures amounted to CFAF 82.4 billion under a ceiling of CFAF 142.6 billion.
- *Total government revenue*, which includes tax and nontax revenue – but excludes foreign grants, the revenue of autonomous entities, and privatization proceeds – amounted to CFAF 944.4 billion compared to a floor of CFAF 907.5 billion.

9. Strict monitoring of the implementation of reforms led to the expeditious implementation of all prior actions (for the ECF approval and completion of the first ECF review) and structural benchmarks in keeping with the timetable indicated in the three-year ECF arrangement. These measures pertain to: (i) the effectiveness of the revenue agencies; (ii) improvement of the management of public finances and debt; (iii) the strengthening of governance and transparency; and (iv) the promotion of financial stability and inclusion.

10. Concerning the revenue agencies, the implementation of reforms aimed at modernizing the tax administration to ensure lasting improvement in revenue collection continues. More specifically, considerable progress has been made in implementing the strategic directions plan for the tax administration (POSAF),[2] and we have also adopted a plan to improve tax compliance in fulfillment of the agreement with the IMF. With regard to customs, we have: (i) put in place a goods tracking system to improve electronic cargo monitoring; (ii) increased the volume of scanned goods by instituting scanning at the Port of Cotonou in November 2017 in order to expand the tax base; and (iii) implemented transaction value.

[2] Thus, 53.2 percent of the actions included in the POSAF action plan are currently being carried out, 29.8 percent have been fully accomplished, and 14.9 percent have not yet been started.

11. We also strengthened cooperation between the two administrations. Several I.T. developments were launched to facilitate information exchanges between customs and taxes. They include: the establishment of a shared platform for tax-customs data exchanges; (ii) the development of several integrated interfaces in the shared platform. The key capabilities integrated into the platform are: (i) keeping the comprehensive taxpayer directory up to date vis-à-vis the tax administration; (ii) automatic integration of the new Single Taxpayer Identification (IFU) numbers generated by SIGTAX; (iii) recognition by ASYCUDA of the activation/deactivation of taxpayers; (iv) automatic integration into ASYCUDA of all paid customs declarations and (v) experimentation with the launch of a system of electronic VAT invoicing machines.

12. Reforms have been undertaken to ensure that public expenditure is strictly monitored. They mainly concern: (i) census-payment operations focused on active and retired government employees, carried out with the aid of biometrics; (ii) direct deposit of university scholarships and aid; (iii) systematic direct deposit of the periodic benefits of active employees and of pensions of CFAF 50,000 or more; (iv) a new policy on the provision of public services, which emphasizes the construction and completion of administrative buildings to significantly reduce rents and internal and external building occupancy expenses; and (v) establishment of the Official Travel Unit (CVO) for improved foreign travel planning and better tracking and rationalization of the related travel funds.

13. Significant efforts were made to improve the availability of the data on public debt. The CAA website is now online; a statistical bulletin on public debt is published quarterly; an annual report on public debt management was prepared; and a medium-term strategy document was appended to the 2017 Budget Law. The next steps will include improvement of the medium-term debt strategy document through the incorporation of a public debt ceiling, as recommended by the LOLF (budget framework law). The aim of public debt monitoring is to cover all guarantees granted by the government as well as the debt of public enterprises. Accordingly, a thorough inventory of the data on the debt of public enterprises as well as their contingent liabilities was carried out. The next steps will be to implement the adopted monitoring system and to include public enterprise debt guaranteed by the government in the medium-term debt strategy.

14. Significant measures were taken to improve governance and combat impunity. In December 2017, a committee for reform of the government's administrative control bodies was appointed, which proposed measures aimed at improving the institutional and regulatory framework of the government's internal audit bodies. This committee also proposed an arrangement giving the managers of sectoral ministries primary responsibillity for the analysis of operational risks and the proposal of corrective measures. Overall, the government is working to strengthen the internal control systems in all sectors with a view to improving operational effectiveness and minimizing the possibility of fraud or the misuse of public funds. The aim of the reform is to specialize the audit bodies, professionalize auditors, and sustainably address the shortage of human and material resources that affects auditor performance. The proposed measures will be adopted by the government by end-June 2018 and will be implemented in the latter half of 2018. They will enable improvement of the quality of reporting at the general government, public enterprise, and government agency levels, including through the publication each year of a report on the follow-up of the various audit missions.

15. Major justice reforms were undertaken. Commercial courts were created and then inaugurated in 2017 following (i) the identification of buildings to house the Commercial Court of Cotonou and the Court of Commercial Appeals of Porto Novo, (ii) the appointment of professional and consular judges, and (iii) the official installation of the courts in these two jurisdictions.

16. Anti-corruption efforts are being strengthened with the National Anti-Corruption Authority (ANLC) plans to further implement the asset declaration regime laid out in the 2011 Anticorruption Law. In particular, the ANLC is aiming, among others, at (i) ensuring that there are penalties if the assets of individuals covered by the Law are not declared; and (ii) permitting the online declaration of assets. It should also be noted that Benin ratified the United Nations Convention against Corruption on July 11, 2005, followed by the African Union Convention Against Corruption and the ECOWAS anti-corruption protocol. We are also in the process of implementing an action plan for the implementation of the recommendations made following the 2016 assessment of the National Integrity System carried out by Transparency International with the support of the European Union. In addition, implementation of the legal and regulatory framework for combating money laundering and the financing of terrorism is being vigorously pursued.

17. Together with the BCEAO, the government has a key role to play in ensuring the stability and soundness of the financial system. To that end, we are pursuing a number of structural reforms. The law on Credit Information Bureaus (CIB) was adopted by the National Assembly and promulgated on January 23, 2017 by the President of the Republic. The adoption of this law formalizes the establishment by Benin of the necessary legal framework for the launch of CIB activities. In addition, the ministerial decree authorizing the opening of a branch office of "CREDITINFO-VOLO" in Benin was signed on February 1, 2018. Regarding the policy framework for bank resolution, the Annex to the agreement governing the WAMU Banking Commission (BC) was amended by Decision No. 10 of 29/09/2017/CM/UMOA of the WAMU Council of Ministers. As a result, the BC is now responsible for the resolution of credit institutions. The general framework for the resolution of institutions has been defined and the BC has a Resolution College. The government's objective going forward is to finalize the establishment of a credit bureau and a regulatory framework for timely bank resolution. We are taking steps to facilitate the use of collateral to obtain bank loans. We will also work to advance the electronic recording of land titles by extending the process to the entire country. The initiative included in the 2016 Supplementary Budget Law to eliminate recording fees was successful, and the number of land titles recorded has grown. We believe that the microfinance sector is key to promoting small enterprises' access to the financial system. To preserve its viability and credibility, we will adopt a new regulatory framework for MFIs aimed at strengthening their supervision.

PROGRAM FOR 2018

18. The program objective is to lay the foundation for accelerated and inclusive growth in a context of inflation control. In addition, the acceleration of the pace of reforms is expected to make it possible to (i) mobilize more resources, (ii) enhance the efficiency of public expenditure, particularly investments, (iii) increase the share of resources allocated to social programs, and (iii) improve the business environment. The macroeconomic framework envisages the acceleration of real GDP growth in 2018 to a projected 6 percent, supported essentially by the strong performance of the agricultural sector and, more particularly, by the cotton sector, increased private investment, and the positive effects of Nigeria's economic recovery. Following the jump in food and oil prices in the last quarter of 2017, inflation is projected at 2.3 percent on average in 2018. The external current account deficit is expected to narrow, thanks to the sustained growth of exports. As a result, the external current account deficit (including grants) is projected to shrink to 0.3 of a percentage point in 2018. This improvement in the external position should enable Benin to contribute to the rebuilding of the WAEMU's international reserves.

Macro-fiscal Framework for 2018

19. In December 2017, the NA passed the 2018 Budget Law in accordance with the draft submitted by the government. The fiscal deficit, including grants, is expected to narrow from 5.9 percent of GDP in 2017 to 4.7 percent in 2018. Government revenue is expected to stabilize at 17.6 percent of GDP, while total expenditure would be contained at 23.7 percent of GDP, down from 24.5 percent in 2017.

Fiscal Policy

20. For 2018, the program envisages the mobilization of CFAF 1,021.6 billion in government revenue, or 17.6 percent of GDP. Revenue performance during the first quarter of the year is encouraging. Nevertheless, the government intends to vigorously pursue reforms aimed at modernizing the tax and customs administrations, as well as the fiscal policies set out in the Budget Law, to ensure the attainment of that target. The key measures pertaining to imports are: (i) the adoption of a standard declaration form; (ii) the monitoring of the declarations required for all taxes; (iii) the launch of a campaign to control VAT credits; (iv) the mandatory use of the I.T. tool; and (v) the appointment and training of personnel as investigators to combat fraud. With regard to customs, we will: (i) promote synergies between customs, Webb Fontaine, and Benin Controls SA; (ii) step up transit oversight and IFU control; and (iii) facilitate trade by improving customs clearance times and service standards, and by increasing the availability of information.

21. The 2018 Budget Law provides for the adoption of a number of measures such as: (i) the 50 percent increase in the departure fee included in the price of business class tickets; (ii) the 10-20 percent increase in the rate of withholding at source on monthly rentals of CFAF 50,000 or more by tenants other than individuals; (iii) the creation of the *taxe professionnelle synthetique* (TPS) for all firms with a turnover less than CFAF 50 million; and (iv) the elimination of certain VAT exemptions.

These measures, together with the pursuit of tax and customs administration reforms, are expected to increase tax revenue by 1.3 percent of GDP compared to 2017 (excluding exceptional non-tax revenue). We are aware of the rapid rise in tax expenditure over the last three years and have decided not to renew the tax exemptions of GSM telecommunications enterprises, which will expire in June 2018. In 2018, we will prepare a strategy aimed at further reducing tax expenditure following the establishment of a reference tax system with technical assistance from the IMF. This new strategy will also consider the revision of certain tax treaties concluded with a number of countries and international organizations.

Public Expenditure Efficiency

22. We realize that boosting the investment efficiency is essential for achieving strong, sustained economic growth while at the same time ensuring the sustainability of public debt. To be sure, growth has returned to Benin, but because public investment is financed by government borrowing, public debt is also growing. Consequently, one of the top priorities of Benin, an economy in which public investment efficiency is relatively weak, is to improve the quality of public investment. To that end, we undertook a public investment management assessment (PIMA) in October 2017, with IMF technical assistance. We agreed with the diagnoses and findings of the report of that mission and have already begun implementing the recommendations contained in the report. The implementation plan developed by staff involved in the investment process is based on the following four actions: (i) strengthen the institutional framework: (ii) ensure the availability and sustainability of financing; (iii) better prepare and better implement projects; and (iv) ensure sustainable investments. We are awaiting the World Bank's response to our request for a public expenditure review.

Public Debt Management

23. Owing to the drying up of financing on the regional market and in view of the risk associated with the short-term refinancing of domestic debt, we initiated a program to optimize the portfolio of short-term debt through a reprofiling operation. This arrangement will consist of repurchasing some short-term loans contracted with local creditors at high costs with the proceeds of more long-term loans contracted with international commercial creditors at a lower interest rates. Without affecting the existing debt stock, the objectives of this operation include: (i) extending the maturity of the portfolio and obtaining external liquidity to alleviate pressure on the local market; (ii) reducing overall debt service thanks to the lower interest rate negotiated for new loans; and (iii) improving debt monitoring. We are receiving World Bank assistance for this operation. Moreover, given the unpredictability of the disbursement of foreign borrowings,[3] we have adopted measures to promote the implementation of various projects. Among these measures are: (i) better incorporation

[3] It should be noted that the government deliberately chose in 2016 to put a number of foreign borrowing disbursements on hold to review them and make reallocations.

of data on the implementation of these projects in SIGFIP, and (ii) systematic reviews every three (3) months of projects financed by development partners.

Public Enterprise Reforms

24. As agreed with the IMF under the program, we collected and analyzed data on public enterprise debt to improve the monitoring and governance of contingent liabilities. The results show that the debt of state-owned companies to commercial banks amounted to CFAF 50.9 billion (1 percent of GDP) in 2017. Public enterprises continue to weigh on the government budget. During the last four years, they contributed – taxes, fees, and dividends – 0.3 percent of GDP to the national budget and in return received 1.5 percent of GDP in grants and subsidies. A number of factors explain the reliance of these enterprises on public resources: ad hoc cross-debt offsetting settlements between the government and these enterprises, and the poor economic and financial performances of most of these enterprises. In addition, few enterprises submit their budgets and financial statements to the government as required by law.

25. The government also intends to strengthen the financial position of public enterprises and improve their management. In this connection, it has begun auditing key enterprises such as the Benin National Council of Shippers (CNCB), the National Maritime Navigation Company (COBENAM), the Post Office of Benin, and the Autonomous Port of Cotonou. These audits basically have two objectives, consisting on the one hand of conducting surveys to better orient reforms and, on the other, to put an end to the management failures that undermine the efficiency of enterprises. This effort also included the recruitment of firms and experts to map the risks of public enterprises. To improve financial reporting and ensure better monitoring, the government plans to expedite the appointment of auditors for the 189 public enterprises and government offices. We also plan to remind them, as forcefully as possible, of the legal obligation of submitting their budgets and financial statements to the Ministry of Economy and Finance within the period specified by law. To limit the impact of public enterprises on the budget, the government plans to define a dividend policy tailored to each enterprise to promote responsibility and accountability for the achievement of results while at the same time ensuring financial management consistent with their development. The government has decided to conclude performance contracts with the key public enterprises by end-2018 (structural benchmark). This is already the case with the Autonomous Port of Cotonou and soon will be with *Société Béninoise d'Energie Electrique* (SBEE), thanks to support from the Millennium Challenge Account. We plan to apply this measure to all public enterprises by end-2019.

Monitoring Public-Private Partnerships

26. Following the establishment of the legal and regulatory framework for public-private partnerships (PPP) by Law (N° 2016-24 of June 28, 2017), the government adopted implementing decrees that take account of the new institutional framework for investment promotion in Benin. The institutional framework will enter into force in 2018, thanks to World Bank TA. Analysis of the options for financing GAP projects is under way and is expected to lead to the compilation of a catalog of

PPP projects. The GAP projects are being prioritized with a view to identifying those that will generate revenue. The idea is to select projects that fulfill that requirement and to which the government can grant usage rights and revenue from users.

Business Environment

27. To make Benin an especially attractive destination for investors, a new investment promotion mechanism was put in place in 2017, formalizing rationalization of the institutional and regulatory framework of investment promotion in Benin. The strategy included the creation of an inter-ministerial committee for investment promotion to improve government coordination on issues related to the business environment and to respond in like manner to the needs and expectations expressed by investors. In operational terms, the Agency for the Promotion of Investment and Exports (APIEX) was restructured to make it the sole means of access for investors and the showcase of investment and export promotion in Benin. The APIEX thus becomes: (i) the one-stop window for business creation; (ii) the technical body responsible for reviewing applications for approval under the Investment Code; (iii) the Executive Secretariat of the PPP Support Unit; (iv) the focal point for the implementation of *Doing Business* reforms; (v) the administrative authority for Special Economic Zones; and (vi) the export information and facilitation center.

28. The new mechanism includes a specific institutional framework for the implementation of *Doing Business* reforms as well as a matrix of annual actions. Two draft laws designed to facilitate private investment are being prepared, one amending the investment code and the other focused on the promotion and development of micro-, small, and medium-sized enterprises in Benin. The innovations introduced by the new Investment Code notably include:

- Simplification of the approval mechanisms (three mechanisms with clear and precise incentives during the start-up and operating periods, two variant mechanisms to further encourage investors interested in the priority sectors of the national economy);
- Professionalization of the processing of applications for approval and limitation of the technical decision period;
- Improvement of the investment monitoring system;
- Incorporation of international best practices for the preparation of investment codes and, in particular, the comments of UNCTAD on the existing code; and
- Structuring of incentives in such a way as to make Benin more competitive than other countries in the sub-region and to ensure the consistency of its investment code provisions with the series of exemptions granted investors in special economic zones, as well as with the specific government assistance initiatives designed to promote national entrepreneurship.

29. The aim of the Law on Micro-, Small, and Medium-Sized Enterprises (MPME) is to formalize the transposition of the provisions of the WAEMU community charter for MPMEs, adopted in December 2015, into the national legislation. The key innovations in this case involve the following aspects:

- the establishment of a system for the identification and categorization of MPMEs eligible for specific government assistance measures;
- the creation by law of an agency responsible for implementing the national policy on the promotion of MPMEs;
- measures to provide MPMEs with assistance and support, including market access facilities, protection against government payment delays, and the incentive to co-contract with large enterprises;
- tax facilities and incentives (for the creation and maintenance of MPMEs, for MPMEs that process local raw materials, and – for business incubators – the compensation of prepayments of corporate income tax at the customs frontier);
- measures to promote and finance MPMEs (technical assistance, facilities for access to land and developed sites, specific financing and guarantee mechanisms or institutions); and
- measures to support troubled MPMEs.

Financial System

30. The African Bank for Industry and Commerce (BAIC) is dealing with operational difficulties that could lead to the closing of its doors and the revocation of its license by the WAEMU Banking Commission (BC). In view of this situation, the government decided to purchase the bank at its equity value, estimated at CFAF 10 billion. However, this rescue operation requires the support of the BC and, subject to its approval, the government will prepare a restructuring plan with a divestment strategy and a timetable that could be discussed during the third review.

31. To promote financial inclusion in Benin, the government intends, inter alia, to create permanent mechanisms for the mobilization of resources by DFSs (decentralized financial systems) and to step up the promotion and coordination of the microfinance sector. Consequently, strengthening the surveillance of DFSs and money laundering is considered a priority action.

32. In operational terms and with regard to supervision of the sector, in 2018 the National Decentralized Financial Systems Surveillance Agency (ANSSFD) will continue implementing the strategy document on microfinance sector rehabilitation, which is based on the following three pillars: (i) application of the law to all authorized DFSs; (ii) application of the law to all entities operating illegally; and (iii) continued strengthening of the stability and balanced operation of the decentralized finance sector with a view to its long-term sustainability. Thus, a national census of microfinance initiatives will be carried out to update the list of institutions operating on the fringes of regulation.

33. To promote the sector, the National Microfinance Fund (FNM) has prepared a new strategic plan for 2017–21, founded on the following three strategic pillars: (i) facilitating DFS access to appropriate financial resources; (ii) building operational capacity and promoting social and technological interventions; and (iii) strengthening the governance and sustainability of FNM actions. In addition, the government, through the Ministry responsible for social affairs and microfinance (MASM), has begun preparing for the FinScope survey, the first stage in the Making Access to Financial Service Possible (MAP) process, which culminates in the preparation of a national financial inclusion strategy in line with the regional financial inclusion strategy developed by the BCEAO. Finally, financial inclusion will be strengthened with the implementation in the coming months of the ARCH (assurance, human capital building) project.

Rebasing of the National Accounts

34. The government has undertaken to update the national accounts and implement the 2008 System of National Accounts (SNA 2008). This initiative will lead to significant improvements in: (i) the updating of a series of decades-old core national accounts data; and (ii) the inclusion in the GDP estimate of major activities that have not been monitored or insufficiently assessed. We expect to finalize the work with the approval of an AFRITAC West mission that was originally planned for end-2017 at the latest, but was unable to visit Cotonou until March 2018 because of scheduling problems. The delay was also due to the late approval of a number of completed studies.

QUANTITATIVE PERFORMANCE CRITERIA AND STRUCTURAL BENCHMARKS

35. Quantitative performance criteria have been set for end-June and end-December 2018 and indicative targets for end-March and end-September 2018 (Table 1). The structural benchmarks for 2018, as well as their macroeconomic justifications, are described in Table 3. The third and fourth program reviews are expected to be completed on or after October 31, 2018 and April 30, 3019, respectively.

Table 1. Benin: Status of Quantitative Performance Criteria and Indicative Targets, 2017–19[1]

(Billions of CFA francs)

	December 31, 2017				March 31, 2018				June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019
	Performance Criteria				Indicative Targets				Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets
	EBS/17/109	Adjusted	Prel.	Status	Prog.	Adjusted	Prel.	Status	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]												
Net domestic financing of the government (ceiling)[3,4,5]	183.7	187.0	185.9	Met	74.7	89.7	43.0	Met	190.9	103.0	118.8	-12.1
Basic primary balance (excluding grants) (floor)	-142.6		-82.4	Met	-69.7		-18.5	Met	-47.5	-20.3	3.9	38.8
Total revenue (floor)	907.5		944.4	Met	204.8		209.5	Met	445.5	707.1	1021.6	226.4
B. Continuous quantitative performance criteria (ceilings)												
Accumulation of external payments arrears	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government	402.8		271.2	Met	468.9		24.3	Met	468.9	468.9	468.9	468.9
Accumulation of domestic payments arrears	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0
Contracts by the government for the prefinancing of public investments projects	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0
C. Memorandum Items[2]												
Priority social expenditure (floor)	160.0		168.3	Met	15.0		35.8	Met	50.0	101.0	167.0	25.0
Memorandum item: Budgetary assistance[6]	55.0		51.7	Not Met	22.6		0.0	Not Met	22.6	39.6	55.4	11.1

Sources: Beninese authorities; IMF staff estimates and projections.

[1] The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

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

[3] The performance criterion on net domestic financing is automatically adjusted as indicated in the TMU.

[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 TMU.

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

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

Table 2. Benin: Status of Structural Benchmarks for 2017

Measures	Dates	Rationale	Status
Revenue administration			
Have the Strategic Plan for the Tax Administration (POSAF) approved by the Ministry of Finance.	Prior action for approval of ECF arrangement	Modernize the tax administration to increase domestic revenue mobilization.	Met
Integrate the Customs and Tax Administrations' computer systems to strengthen their coordination.	Prior action for approval of ECF arrangement	Boost domestic revenue collection	Met
Agree upon a 2017 budget consistent with the ECF-supported program.	Prior action for approval of ECF arrangement	Preserve fiscal sustainability.	Met
Review and quantify all tax expenditures and agree on a time-bound strategy to suppress all tax expenditures that are not in line with the WAEMU directives.	End-September 2017	Boost domestic revenue collection.	Met
Public financial management			
Put into place a framework for the preparation and monitoring of the government's cash flow plan.	End-June 2017	Ensure effective cash flow management.	Met
Prepare monthly plans for cash flow forecasts and quarterly comprehensive assessments of budget execution.	End-June 2017 (then on an ongoing basis)	Enhance the transparency, timeliness, and accuracy of budget information.	Met
Increase the transparency of procurement operations by publishing on the internet all basic information about procurement.	End-June 2017	Ensure the optimal utilization of resources and encourage competition in the private sector.	Met
Conduct a public expenditure review with World Bank assistance.	End-September 2017	Improve the quality of public expenditure.	Met
Public investment			
Establish a Unit responsible for the implementation of the GAP, notably the Flagship projects.	Prior action for approval of ECF arrangement	Improve the outlook for growth and contribute to debt sustainability.	Met

Table 2. Benin: Status of Structural Benchmarks for 2017 (concluded)

Measures	Dates	Rationale	Status
Launch the Strategic Support Unit under the Ministry of Finance, which is responsible *inter alia* for evaluating the fiscal risks associated with public private partnerships.	End-June 2017	Promote transparency and reduce contingent liabilities.	Met
Develop a multi-year commitment framework for investment projects.	End-September 2017	Ensure the availability of information on stipulations and conditions to comply with the debt limit policy.	Met
Debt management and sustainability			
Extend the coverage, under the medium-term debt strategy, to the debt of state-owned enterprises, after completion of data collection on their financial condition and contingent liabilities.	End-December 2017	Improve the capacity for active debt management and ensure debt sustainability.	Met
Reform of state-owned enterprises			
Collect data on the debt of state-owned enterprises and adopt a monitoring mechanism.	End-September 2017	Ensure better monitoring of contingent liabilities and improve public debt management.	Met
Business climate and financial inclusion			
Adopt implementing decrees for Laws No. 2001-37 and 2008-07, dealing with commercial courts.	Prior action for approval of ECF arrangement	Improve governance and the business climate.	Met
Establish a credit bureau and make it operational.	End-December 2017	Improve the efficiency of the financial sector and intermediation.	Met

Table 3. Benin: Structural Benchmarks for 2018 and Macroeconomic Rationale

Measures	Dates	Rationale	Status
Agree upon a 2018 budget consistent with the ECF-supported program. (MEFP ¶21)	Prior action for first review	Preserve fiscal sustainability.	Met
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	
Implement the system of control of the effectiveness of the realization of the investments envisaged within the framework of approvals to the code of investments and approvals for the installation of special economic zones.	December 2018	Fight fiscal fraud and rationalize exemptions.	
Implement a plan to strengthen tax compliance.	June 2018	Increase fiscal revenues by improving tax compliance-risk management.	
Public financial management			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State. (MEFP ¶14).	June 2018	Improve economic governance.	
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Increase transparency, timeliness and accuracy of budget information.	
Adopt a comprehensive and high-level regulatory text for public investments, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify weaknesses.	

Table 3. Benin: Structural Benchmarks for 2018 and Macroeconomic Rationale (concluded)

Measures	Dates	Rationale
Financial inclusion		
Establish a credit bureau and a policy framework for time-bound bank resolution.	December 2018	Improve financial intermediation.
Adopt a new regulatory framework for microfinance institutions strengthening their supervision (MEFP ¶33).	December 2018	Promote financial inclusion
State-owned enterprises reform		
Complete the data collection of SOEs' debt and operationalize the monitoring framework (MEFP ¶25).	September 2018	Better monitor contingent liabilities and improve public debt management.
Set performance contracts with key SOEs.	December 2018	Improve SOEs contribution to government revenues.

Attachment II. Technical Memorandum of Understanding

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

PROGRAM ASSUMPTIONS

2. Exchange rates under the program. For the purposes of this Memorandum, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.[1]

CFAF/US$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

DEFINITIONS

3. Unless otherwise indicated, "government" is understood to mean the central government 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).

4. The definitions of "debt" and borrowing for the purposes of this Memorandum are set out in point 8 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended on December 5, 2014 by Executive Board Decision No. 15688-(14/107):

(a) **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for 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

[1] 2018 exchange rates as at August 18, 2017.

(including currency) or services at some future point(s) in time, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms; the primary ones being as follows:

i) loans, that is, advances of money to the obligor by the lender 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 seller 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 also 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) Except as provided for under 2(d) below, the present value of the loan will be calculated using a single discount rate set at 5 percent.

(c) "External debt" is defined as debt denominated in any currency other than the CFA franc and debt in CFA francs contracted with another member state;

(d) For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.[2] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and

(e) Domestic debt is defined as debt denominated in CFA francs, unless it is contracted with another member state.

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

5. Net domestic financing (NDF) 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 shares of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any BCEAO

[2] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Spring 2018 World Economic Outlook (WEO).

credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.

6. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and local 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, except for industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and local commercial banks, including Treasury bills and other securitized debt.

7. The data 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.

8. Gross external budgetary assistance is defined as grants, loans, and non-earmarked 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 (MDRI) 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 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 arrears.

Performance Criteria and Indicative Targets

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 70.1 billion at end-March 2017; CFAF 116.1 billion at end-June 2017; CFAF 183.9 billion at end-September 2017; and CFAF 183.7 billion at end-December 2017. The ceiling is a performance criterion for end-June and end-December 2017, and an indicative target for end-September 2017.

The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 22.0 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103.0 billion at end-September 2018; and CFAF 118.8 billion at end-December 2018. The ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

Adjustments

10. Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- 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 more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that excess, minus CFAF 5 billion.

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 15 billion at end-June 2017 and CFAF 25 billion at end-December 2017. The same rule applies for 2018.

11. 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 16.2 billion at end-March 2017; CFAF 16.2 billion at end-June 2017; CFAF 39.2 billion at end-September 2017; and CFAF 55 billion at end-December 2017.

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 8.8 billion at end-March 2017; CFAF 24.8 billion at end-June 2017; CFAF 32.4 billion at end-September 2017; and CFAF 70.6 billion at end-December 2017.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 9.7 billion at end-March 2018; CFAF 29.3 billion at end-June 2018; CFAF 38.9 billion at end-September 2018; and CFAF 60.6 billion at end-December 2018.

B. Floor of the Basic Primary Fiscal Balance

Definition

12. The basic primary fiscal balance is defined as 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) interest payments 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

13. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF 64.7 billion at end-March 2017; CFAF 73.1 billion at end-June 2017; CFAF 139.0 billion at end-September 2017; and CFAF 142.6 billion at end-December 2017. The floors for end-June and end-December 2017 are performance criteria and the floor for end-September 2017 is an indicative target.

14. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than minus CFAF 69.7 billion at end-March 2018; minus CFAF 47.5 billion at end-June 2018; minus CFAF 20.3 billion at end-September 2018; and CFAF 3.9 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

C. Floor of Total Government Revenue

Definition

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

Performance Criteria and Indicative Targets

16. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 182.9 billion at end-March 2017; CFAF 386.1 billion at end-

June 2017; CFAF 602.9 billion at end-September 2017; and CFAF 907.5 billion at end-December 2017. The floors for end-June and end-December 2017 are performance criteria and the floor for end-September 2017 is an indicative target.

17. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 707.1 billion at end-September 2018; and CFAF 1,021.6 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

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

Definition

18. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer repayment period. The Autonomous Amortization Fund (CAA) and the Treasury record and update the data on the accumulation and reduction of domestic payments arrears. The definitions of debt given in paragraph 4a, of domestic debt in paragraph 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

19. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.

E. Non-Accumulation of External Payments Arrears by the Government

Definition

20. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, on the external debt of the government or external debt guaranteed by the government. The definitions of debt given in paragraph 4a, of external debt in paragraph 4c, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

21. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears related 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.

F. Ceiling on the Amount of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or more

Definition

22. This performance criterion applies not only to debt as defined in paragraph 4a, 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 4c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

23. The term "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 3, local governments, and all public enterprises, including administrative public agencies (EPA), 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

24. The present value of new external borrowing contracted or guaranteed by the government in 2018 will not exceed a cumulative amount of CFAF 468.9 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

G. Ceiling on Pre-financing Contracts for Public Investments

Definition

25. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury's account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

26. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS

H. Floor for Priority Social Expenditures

27. Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, *inter alia*: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education; and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFIP).

Definition

28. 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 below.

Table 1. Priority Social Expenditure Categories	
Budget code	**Description**
25	Ministry of Economy and finance
26	Ministry of Justice
27	Ministry of Planning and Development
31	Ministry of the Labor, the Civil Service, and Social Affairs
34	Ministry of Living Standards and Sustainable Development
36	Ministry of Health
37	Ministry of Energy, Water, and Mines
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Tourism, Culture, and Sports
41	Ministry of Social Affairs and Microfinance
44	Ministry of Higher Education and Scientific Research
46	Ministry of Small and Medium-Sized Enterprises and Employment Promotion
51	Ministry of Infrastructure and Transports
60	Ministry of Interior and Public safety
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training

Indicative Target

29. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 36.3 billion at end-March, CFAF 85.0 billion at end-June; CFAF 125.0 billion at end-September 2017; and CFAF 160.0 billion at end-December 2017. For 2018, the indicative targets are set as follow: CFAF 15.0 billion at end-March, CFAF 50.0 billion at end-June; CFAF 101.0 billion at end-September; and CFAF 167.0 billion at end-December.

INFORMATION FOR PROGRAM MONITORING

I. Data on Performance Criteria and Indicative Targets

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

Every month:

- 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 claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by 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;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

Data pertaining to the amount of exceptional payment orders 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.

J. Other Information

29. The authorities will provide IMF staff with the following data:

Every month:

- Bank 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 loan agreements 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 review law; as well as any decree or law pertaining to the budget or the implementation