August 2002
IMF Country Report No. 02/158

Benin: 2002 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, and Requests for an Extension of the Poverty Reduction and Growth Facility Arrangement and for an Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Public Information Notice and News Brief on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with Benin and Requests for an Extension of the Poverty Reduction and Growth Facility Arrangement and for an Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation and Requests for an Extension of the Poverty Reduction and Growth Facility Arrangement and for an Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **April 26, 2002**, with the officials of Benin on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 28, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) and a News Brief summarizing the **views of the Executive Board as expressed during the July 15, 2002 Executive Board discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Letter of Intent*
Memorandum of Economic and Financial Policies*
Statistical Appendix
Technical Memorandum of Understanding*

*May also be included in Staff Report.

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BENIN

Staff Report for the 2002 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, and Requests for an Extension of the Poverty Reduction and Growth Facility Arrangement and for an Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Prepared by the African Department

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

Approved by Jean A.P. Clément and Masood Ahmed

June 28, 2002

- Discussions for the 2002 Article IV consultation and the third review under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou during March 11-22, 2002 and in Washington during April 22-26, 2002.

- Benin is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on January 8, 2001. The second review under the PRGF arrangement was concluded and the second-year program presented to the Board on November 2, 2001. Benin's outstanding use of Fund resources amounted to SDR 57.3 million (92.6 percent of quota) at end-April 2002. Benin has accepted the obligation of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions subject to approval under Article VIII.

- The Beninese representatives comprised Mr. Amoussou, Minister of State in Charge of Government Coordination and Planning; Mr. Laourou, Minister of Finance and Economy; Mr. Daouda, National Director of the Central Bank of West African States (BCEAO); and other senior government officials. The mission was received by President Kérékou.

- The staff members were Mr. Ewenczyk (head), Mr. Randriamaholy (Resident Representative), Mr. Nsengiyumva, Ms. Nkusu, Ms. Yontcheva (all AFR), and Ms. John (Senior Administrative Assistant, AFR). Mr. Nyambal, Advisor to the Executive Director for Benin, as well as Ms. Leroy and Mr. Dramé from the World Bank, participated in the discussions.

- The authorities have agreed to the publication of the staff report, the letter of intent, and the memorandum on economic and financial policies.

Contents

Page

Executive Summary 4

I. Introduction 6

II. Recent Economic Performance 7
- A. Macroeconomic Policies and Budget Reform 7
- B. Structural Reform Implementation 9
- C. Regional Integration 10

III. Medium-Term Strategy 11

IV The Program for 2002 13
- A. Fiscal Policy and Budget Reform 13
- B. Regional Monetary Policy and the Financial Sector 16
- C. Other Structural Reforms 16
- D. Governance 17
- E. Poverty Alleviation and Preparation of the PRSP 17

V. Medium-Term Balance of Payments Outlook and Capacity to Repay the Fund 19

VI. Statistical Issues 21

VII. Staff Appraisal 21

Boxes
1. Compliance with WAEMU Convergence Criteria 23
2. Reforms in the Cotton Sector 24
3. Safeguards Assessment of the BCEAO 26
4. Structural Conditionality 27
5. Balance of Payments, 1999-2004 28

Figures
1. Selected Economic and Financial Indicators, 1993-2004 29
2. Selected External and Monetary Indicators 30
3. Effective Exchange Rates, January 1993-February 2002 31

Tables
1. Proposed Schedule of Disbursements Under the Remainder of the PRGF Arrangement, 2002-03 32
2. Fund Position During the Remainder of the PRGF Arrangement, January 2002-December 2003 33

3. Main Economic Indicators, 1999-2004 ... 34
4. Macroeconomic Indicators, 1999-2004 ... 35
5. Consolidated Government Operations, 1999-2004 ... 36
6. Monetary Survey, 1999-2002 ... 37
7. Balance of Payments, 1999-2004 (In billions of CFA francs) ... 38
8. Balance of Payments, 1999-2004 (In millions of U.S. dollars) ... 39
9. External Debt and Scheduled Debt Service, 1999-2004 ... 40
10 Fiscal Impact of the HIPC Initiative, 1999-2004 ... 41
11. Indicators of Fund Credit, 1995-2004 ... 42
12. Public Expenditure for Health and Education, 1999-2002 ... 43
13. Selected Demographic and Social Indicators ... 44
14. Financial and Structural Benchmarks and Performance Criteria Under the Program for 2001 ... 45
15. Use of HIPC Funds, 2000-01 ... 46
16. Summary of Key Structural Measures, April 2002-June 2003 ... 47
17. Progress in Implementing Completion Point Conditions ... 48

Appendices

I. Letter of Transmittal and Memorandum on Economic and Financial Policies for 2002 ... 50
Annex I: Memorandum on Economic and Financial Policies for 2002 ... 52
Annex II: Technical Memorandum of Understanding ... 64
II. Relations with the Fund ... 72
III. Relations with the World Bank Group ... 76
IV. Statistical Issues ... 79

Executive Summary

Background and recent developments

- **On the political front,** President Kérékou was reelected for a second mandate in March 2001, and a new coalition government was formed in May 2001. The absence of a government majority in the National Assembly has resulted in delays in the adoption of economic reforms. A protracted civil service strike, which started at the beginning of 2002, ended in March when the government granted an unplanned wage increase.

- **Macroeconomic performance remained broadly in line with the objectives of the PRGF-supported program in 2001**, although progress on the structural front was slow, especially regarding the measures that constitute triggers for the HIPC Initiative completion point.

- **All performance criteria and structural benchmarks for end-December 2001 were met,** except the benchmark on the adoption of an action plan for the privatization of the state-controlled bank. This benchmark is expected to be met by end-July 2002.

Prospects for 2002

- **Real GDP is projected to grow by 5.3 percent in 2002** as a result of a rebound in cotton production, while inflation should remain subdued. The external current account deficit is expected to widen by 1½ percentage points of GDP, owing to the global economic downturn and the sharp decrease in the world cotton price.

- **Fiscal consolidation will continue.** Revenue mobilization will be strengthened through the enhancement of customs administration. On the expenditure side, nonpriority outlays have been strictly limited to make room for the cotton price subsidy and the increase in wages granted at the beginning of the year.

- **The structural reform program** focuses on the divestiture of public utilities, the pursuit of the reform in the cotton sector, the improvement of public finance management, the reform of the civil service, and the furthering of good governance.

- **The government is finalizing the PRSP with the assistance of the donor community** and pursuing its efforts to expand poverty reduction programs. Social expenditures will continue to increase through a rise in budgetary outlays supported by external assistance.

Issues raised in the staff appraisal

- **The fiscal stance remains appropriate in 2002.** The fiscal targets will be achieved through continuing efforts to improve revenue performance and rein in nonpriority spending.

- **The timely implementation of the structural reform agenda is essential** for accelerating growth over the medium term and reducing poverty. The implementation of a performance-based compensation system for the civil service would improve the efficiency of the public administration and reduce the pressure to increase wages.

- To **strengthen the banking sector**, the prudential ratios will need to be strictly adhered to, and the selling of the government's shares in the state-controlled bank will need to proceed.

- **The staff encouraged the authorities to finalize promptly the preparation of a high-quality PRSP** and meet the HIPC Initiative completion point conditions. In the meantime, the staff recommends that additional interim assistance under the HIPC Initiative be granted to Benin to cover debt service payments falling due to the Fund from the date of approval of the decision through June 30, 2003. The staff also recommends that the PRGF arrangement be extended to March 31, 2004.

I. Introduction

1. The Executive Board concluded the 2000 Article IV consultation and the first review under the Poverty Reduction and Growth Facility (PRGF) arrangement on January 8, 2001 (EBS/00/288; 12/27/00). The second review under the PRGF arrangement was concluded and the second-year program presented to the Board on November 2, 2001 (EBS/01/176; 10/18/01).[1] At that time, Directors considered that the economic and financial performance had been satisfactory. They noted, however, that implementation of structural reforms had been uneven and urged their faster implementation to strengthen economic growth. They welcomed progress in the preparation of the full poverty reduction strategy paper (PRSP) and stressed that much work remained to be done, including the setting of sectoral objectives and policies and the identification and costing of priorities.

2. In the attached memorandum on economic and financial policies (MEFP) (Appendix I, Annex I), the authorities review the performance under the program and describe the policies that will be implemented in the period ahead. The performance criteria and benchmarks for the remainder of 2002 are set out in the technical memorandum of understanding (Appendix I, Annex II).

3. **The Fund and World Bank staffs have continued to cooperate closely on Benin.** A World Bank mission was in Cotonou at the same time as the Fund mission to follow up on implementation of the public expenditure reform adjustment credit (PERAC) approved in March 2001. The World Bank staff was also preparing a supplement to the PERAC to support cotton farmers' income and protect priority spending in the context of the sharp decrease in the world price for cotton. A cotton sector project, to support the ongoing reform in the cotton sector, was approved by the World Bank Board in January 2002. Finally, the World Bank will prepare a Poverty Reduction Support Credit (PRSC), following the finalization of a PRSP, that makes the case for additional expenditure to reduce poverty and satisfactory implementation of key structural reforms. Benin's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.

4. **Benin's economic database is comprehensive but remains weak**, particularly regarding national accounts, government expenditure, and the balance of payments (Appendix IV).

---

[1] The three-year PRGF arrangement, in an amount equivalent to SDR 27 million (43.6 percent of quota), and the first disbursement thereunder, in an amount equivalent to SDR 6.8 million (11 percent of quota), were approved by the Executive Board on July 17, 2000 (EBS/00/130; 7/10/00). Also, at that time, the Executive Board agreed that Benin had reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Interim assistance granted by the Fund amounts to the equivalent of SDR 1.8 million in 2000 and SDR 3.68 million in 2001.

5. **On the political front,** President Kérékou was reelected for a second mandate in March 2001, and a new coalition government was formed in May 2001. The absence of a government majority in the National Assembly has resulted in delays in the adoption of economic reforms. Local elections initially scheduled for 2000 are to take place in December 2002. The recent **social situation** was marked by a protracted civil service strike, which ended in early March 2002 when the government granted an unplanned wage increase.

II. Recent Economic Performance

6. **Benin's economic performance continued to be satisfactory in 2001** (Table 3; and Figures 1 and 2). The macroeconomic and financial situation remained broadly in line with the program objectives. Real GDP is estimated to have increased by 5 percent, driven by strong growth in the construction, public works, services, and industrial sectors, but was somewhat lower than the expected rate of 5.8 percent, because of a smaller-than-projected increase in foodstuff production. Consumer price inflation decelerated (from an end-of-period rate of 8 percent in 2000 to 2.3 percent in 2001). The external current account deficit, excluding current official transfers, declined from 8 percent in 2000 to 6.7 percent of GDP in 2001, owing to more favorable terms of trade. Benin continued to contribute positively to the international reserves position of the regional central bank (BCEAO), aided by the dishoarding of French franc balances held by residents ahead of the adoption of the euro at the beginning of 2002. The global economic slowdown in the second half of 2001 and the resulting sharp decrease in the world price of cotton had only a limited effect on Benin's economy in 2001 because exports in the major cotton sector had already been realized beforehand.

7. Regarding **financial performance under the program** (Table 14), all the quantitative performance criteria for end-December 2001 were met. Three of the four structural benchmarks were met; the fourth one, the adoption of an action plan to privatize the remaining state-owned bank, is expected to be met by end-July 2002. Also, spending on health was slightly below the indicative targets stipulated in the program.

A. Macroeconomic Policies and Budget Reform

8. **Fiscal performance in 2001 was broadly in line with program objectives** (Table 5). The overall fiscal deficit, on a payment order basis and excluding grants, was held to the program target at 4.2 percent of GDP. With financing by international assistance reaching 6.9 percent of GDP, the government increased its net deposits with the banking system by 2.8 percent of GDP.[2] Total revenue, at 16.2 percent of GDP, was slightly lower than expected because customs receipts were adversely affected by a tightening of controls

[2] External financing increased from 4.7 percent of GDP in 2000 to 6.9 percent of GDP in 2001, owing to larger disbursements of program aid, including late disbursements of assistance scheduled for 2000.

by Nigeria on the border with Benin and weaknesses in customs administration. Total expenditure, however, was 0.3 percentage point of GDP lower than the projected level of 20.6 percent of GDP, as the authorities contained nonwage current expenditure below budgetary allocations. Priority outlays for education and health rose at a significantly higher pace than other outlays (from 4.8 percent of GDP in 2000 to 6.2 percent of GDP in 2001) (Table 12).

9. **The authorities reinforced measures to improve budget execution in the course of 2001**. Implementation of the new computerized budget management system (SIGFIP) encountered difficulties during the first half of 2001 that slowed budget execution and led the Treasury to pay urgent expenses by using exceptional procedures. In particular, spending for health and education at end-June was only at 30 percent of the level budgeted for the year. However, improved control over the SIGFIP system allowed for a catch-up in the execution rate of expenditure during the second half of the year. At the same time, the authorities were able to reconcile data between the treasury and the budget department. By year end, the execution rate of spending for health and education had reached about 93 percent.

10. **The growth rate of broad money**, at 12.7 percent, continued to abate (from 35 percent in 1999 and 21 percent in 2000) (Table 6). Monetary expansion was underpinned by a significant improvement in the banking system's net foreign assets, reflecting three factors: intensified efforts to repatriate export proceeds previously held abroad; the conversion into CFA francs of French francs held outside the banking system prior to the transition to the euro; and an increase in foreign assistance to the government. Domestic credit declined by 26.8 percent as a result of the buildup of government deposits (at end-2001, net government deposits reached the equivalent of 10 percent of broad money). At the same time, credit to the nongovernment sector stagnated, as some ginning enterprises benefited from increased prefinancing credit from their foreign customers.[3] Despite the easing in interest rates in industrialized countries by end-2001, the regional central bank kept its benchmark discount rate unchanged at 6.5 percent.

11. The real effective **exchange rate** appreciated somewhat (by 3 percent) in 2001 as a result of a slightly higher inflation rate than that of Benin's trading partners and a small decline of the U.S. dollar against the euro, to which the CFA franc is pegged (Figure 3). However, the staff concurred with the authorities that, given the relatively low inflation recorded during the past few years, the gains in external competitiveness achieved as a result of the 1994 devaluation appear to have been largely preserved.

[3] As a result, banks are mostly lending to the service sector which at end-December 2001 had amounted to about 70 percent of outstanding bank credit.

B. Structural Reform Implementation

12. **Progress on the structural front was uneven**. Further key reforms were implemented in the cotton sector, and there was some progress in the divestiture of public utilities. Implementation of structural measures that constitute triggers for the HIPC Initiative completion point, however, encountered significant delays, including as regards the adoption of a strategy to privatize the state-owned ginning enterprise, SONAPRA (Société Nationale pour la Promotion Agricole) and the finalization of the PRSP and the medium-term expenditure framework (MTEF) for the period 2002-04 (a key instrument of budget reallocation that has benefited from World Bank assistance). Furthermore, the reform of the civil service stalled, as the National Assembly did not vote on the legislation regarding the new compensation system for the civil service.[4]

13. **In the cotton sector, the authorities pursued their policy of liberalization.** Significant reforms were achieved in 2001 with World Bank assistance. Responsibility for credit input recovery and the primary marketing of seed cotton was transferred from SONAPRA to the private sector through an autonomous agency, the Centrale de Sécurisation des Paiements et du Recouvrement (CSPR), which became fully operational in January 2001.[5] As a result, the 2000/01 cotton harvest was generally satisfactory. However, the CSPR incurred delays in settling its financial obligations to producers because a private ginning enterprise did not fully pay for seed cotton.[6] In order to avoid the recurrence of such problems, the CSPR strictly enforced its requirements for the 2001/02 crop season, prohibiting ginning companies in arrears from making further purchases of seed cotton and requiring a down payment equivalent to 40 percent of their seed allocation before the beginning of the harvest.

14. The **divestiture program** for the telecommunications company (OPT), the water and electricity distribution company (SBEE), and the Autonomous Port of Cotonou (PAC), which was at a standstill through the March 2001 presidential elections, **progressed** later in the

---

[4] The legislation was submitted by the government to a vote of the National Assembly—a structural benchmark—in November 2001; however, the legislation was not voted. The new compensation system was designed to improve civil service performance, contain salary increases, and eliminate gaps between the salaries paid and those corresponding to grade levels. The gaps arose because civil servants continued to move up along their job ladders while salary increases were blocked from 1986 to 1992. While salaries have more than doubled since 1992, the increase was insufficient to reestablish the link between salaries and grades.

[5] The CSPR is run by the stakeholders of the sector (producers, ginners, and input importers). It manages the distribution of seed cotton to ginning mills and ensures repayments of crop credit to commercial banks.

[6] SONAPRA's arrears were settled in September 2001.

year, as a broad consensus arose on the need to draw private expertise and capital into the management of these key public enterprises. For the SBEE, a seminar, in which representatives of civil society participated, recommended that it be split into two entities. The electricity entity would be managed by a private firm, while responsibility for the management of the water entity would be eventually transferred to local governments. As regards telecommunications, the government adopted by ordinance legislation separating the post office from the telecommunications entity, an action that will allow the government to start the privatization of the telecommunications entity. For the PAC, the study of the option for a private sector participation in the management of the port was finalized.

15. As regards the financial sector, **the government pursued efforts to ensure that banks meet the regional banking commission's prudential ratios**. The government replaced the management of two banks in September 2001 in light of the financial problems and mismanagement that the regional commission's audit had uncovered the previous year. Capital adequacy ratios of five of the six commercial banks that were active at end-December 2000 increased sizably in 2001. However, only three banks met the new capital adequacy ratio of 8 percent required from January 1, 2002 onwards in line with international standards.[7] Despite strengthened recovery efforts, the nonperforming loans of commercial banks remained stable in 2001 at about 5.5 percent of total credit. As regards the financial health of the cooperative and mutual credit institutions, implementation of the plan to rehabilitate the largest cooperative and mutual credit institution, FECECAM,[8] was satisfactory. **Benin was one of the first countries to respond to the questionnaire on anti-money laundering and combating the financing of terrorism (AML/CFT).** It already has a number of regulations and enforcement mechanisms in place. Moreover, the authorities are participating in an initiative led by the Central Bank of Western African States (BCEAO) to strengthen AML/CFT provisions in all countries of the West African Economic and Monetary Union (WAEMU), including through the forthcoming adoption of specific WAEMU directives and through the establishment of financial intelligence units.

C. Regional Integration

16. **Benin remained one of the most compliant members of the WAEMU regarding the regional Convergence, Stability, Growth, and Solidarity Pact**. The pact, adopted in December 1999, reinforced the system of mutual surveillance through a new set of relevant criteria in order to support the common pegged exchange rate regime and boost the regional

---

[7] These three banks account for some 75 percent of total bank loans and have a ratio of capital to risk-adjusted assets of 13.4 percent on average. Two under-capitalized banks, including the one scheduled for privatization, have been placed under close surveillance by the regional banking commission, which has recommended measures to strengthen their financial position. Adoption of an action plan for the privatization of the state-owned bank has been delayed awaiting the surveillance report from the banking commission.

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

reform agenda[9]. Benin continued to meet all the WAEMU primary convergence criteria in 2001, except that for inflation, which was slightly exceeded (Box 1). Two of the four secondary criteria were also met; the authorities reiterated that, while they continued to make progress in complying with the remaining criteria, some time would be needed to observe the criteria pertaining to the tax revenue-to-GDP ratio and the external current account-to-GDP ratio. Benin also took the necessary steps to comply with WAEMU's **directives to harmonize budget laws**, and is making progress with those related to government accounts and statistics.

17. Regarding external trade regime, the authorities were satisfied with the recent **adoption of the WAEMU common trade policy** and are preparing for compliance with the regional nomenclature. The common external tariff (CET), which was implemented on January 1, 2000, has established four rates (0, 5, 10 and 20 percent) and a uniform statistical duty of 1 percent, while dismantling internal tariff barriers.[10] Customs revenue in Benin was not adversely affected by the introduction of the CET, which in fact increased the average tariff rate (from 9 percent in 1999 to 12 percent in 2000), since some imports, especially consumer goods, were reclassified into a higher tariff category.

III. Medium-Term Strategy

18. The authorities reiterated that Benin's **medium-term macroeconomic strategy aimed at achieving strong economic growth and reducing poverty, while maintaining financial viability.** They stressed that, to achieve these objectives, they were firmly committed to implementing macroeconomic policies and structural reforms under the PRGF-supported program. However, the authorities indicated that they had revised downward their objectives for economic growth, in view of the global economic downturn and the sharp decrease in the world price for cotton, and the lower growth prospects for Nigeria's economy; their objective was now to raise real GDP growth from 5.8 percent and 5 percent in 2000 and 2001, respectively, to 6½ percent by 2004 (instead of 7 percent, as originally programmed). Inflation would remain at about 3 percent (the regional target), while the external current account deficit would narrow to below 7 percent of GDP after initially widening in 2002.[11]

---

[9] See *African Department, West African Economic and Monetary Union: Recent Economic Developments and Regional Policy Issues in 2000,* IMF Staff Country Report no. 01/193 (Washington: IMF, 2001).

[10] There are no formal nontariff barriers.

[11] The government intends to modify the current macroeconomic framework once the PRSP has been finalized, as stated in the MEFP (para. 18).

19. The authorities stressed that the **economy remained very vulnerable to external shocks** because of the continued heavy dependence on cotton production and exports, and trade with Nigeria. They agreed with the staff that reform efforts needed to be sustained and expanded in order to broaden the productive base and promote private sector initiative and investment. In particular, the authorities wished to continue reorienting public expenditures toward the priority social sectors for human resource development, while accelerating reforms aimed at reducing the costs of transport, energy, and telecommunications—through the divestiture of public utilities and private sector involvement in the management of PAC—and strengthening financial institutions. Regarding the cotton sector, Benin, which is the most advanced country of the region in implementing structural reforms, would actively continue the liberalization process, notably through the privatization of the SONAPRA, in order to enhance competition and allow a larger share of the world price to be passed through to farmers—and, thereby, improve rural welfare (Box 2). The authorities believed that all these efforts would permit a strengthening of Benin's competitive position.

20. At the same time, the authorities emphasized that subsidies to cotton farmers in major cotton-producing countries outside the region increased supply artificially in international markets and depressed export prices for Benin; these subsidies, therefore, did not allow the country to better exploit its comparative advantage in cotton production, at a time when the cotton sector was being reformed to make it more competitive and less state dependent. In the circumstances, they underlined that the recent **decline in the world market price for cotton** would have produced a sharp fall in growers' revenues without the assistance offered by some key donors to the government to help it maintain the producer price. The authorities reiterated, however, that the recourse to price subsidies during 2001/02 was exceptional and did not call into question the objectives of enhanced competition and privatization.

21. **The staff concurred that timely implementation of structural reforms, especially the divestiture program and reform in the cotton sector, was key to achieving the economic objectives of the government**. It noted that in parallel there was a need for renewed efforts to address the deficits of the public entities, notably the SBEE and the civil service pension fund. The staff emphasized the **importance of civil service reform** to contain public sector wages, increase the efficiency of the civil service, and improve the competitiveness of the economy; it encouraged the authorities to give a new impetus to this reform. More generally, **achievement of the fiscal objectives underpinning the economic strategy** of the government will require further improvement in tax administration, particularly at customs, and continued restraint in nonpriority current outlays; in particular, the granting of new ad hoc wage concessions or subsidies should be resisted. In this respect, the staff welcomed ongoing efforts to establish promptly a price-setting mechanism for seed cotton reflecting the trend in the world price. At the same time, the authorities will need to continue to strengthen the new expenditure management system and implement the medium-term expenditure programs prepared with the assistance of the World Bank.

22. To maximize the benefits of the **monetary union and its fixed exchange rate regime,**[12] the authorities intend to continue to make progress in achieving macroeconomic convergence, including fiscal consolidation, with other WAEMU member countries in the context of the framework of mutual surveillance—the convergence pact—adopted in December 1999. To support the fixed parity of the CFA franc and its convertibility, regional monetary policy will continue to aim at ensuring price stability and maintain an appropriate level of foreign reserves. The authorities agreed that the vulnerability of Benin's economy to external shocks required a closer and more comprehensive monitoring of external competitiveness; in this regard, Benin will contribute to the ongoing efforts by the WAEMU Commission and the BCEAO to develop competitiveness indicators for the member countries.

IV. The Program For 2002

23. For 2002, in view of the international environment and the sharp decrease in the world price of cotton, the staff and authorities projected lower real GDP growth (5.3 percent) than estimated previously (6.0 percent).[13] Annual average inflation is targeted to be contained at 3.3 percent. As regards the external sector, the terms of trade are projected to deteriorate sharply (by 15 percent). Cotton production is expected to rebound (increasing by about 14 percent), but this increase will not compensate for the larger drop in the world cotton price. At the same time, the volume of imports is forecast to be somewhat smaller than projected in the program. Overall, the external current account deficit is likely to widen from 6.7 percent of GDP in 2001 to 8.3 percent in 2002.

A. Fiscal Policy and Budget Reform

24. **The authorities recently took a series of measures that resulted in additional expenditure commitments for the 2002 government budget.** In the context of the weak world cotton price, the government decided, as indicated above, to subsidize cotton producers by maintaining the producer price at CFAF 200 per kilogram during the 2001/02 crop season. Furthermore, following a protracted civil service strike, the government granted in early March 2002 an unplanned wage increase of 6½ percent with retroactive effect from January 2002.[14] **The mission reviewed with the authorities the impact of these additional expenditure commitments, as well as a possible shortfall in revenue, and discussed measures to close the resulting gap.** Expenditure overruns in 2002 would have amounted to

[12] Benin has accepted the obligation of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions subject to approval under Article VIII.

[13] Growth projections are predicated on strong growth in the agriculture—as cotton production in particular is recording a rebound during the 2001/02 crop season—and manufacturing sectors.

[14] The government had already increased wages by 6½ percent starting in January 2002.

about CFAF 23 billion (1.2 percent of GDP), emanating from (i) the unplanned salary increase (CFAF 5.3 billion); (ii) the cost of the subsidy to cotton producers (about CFAF 11 billion after taking into account a World Bank proposed contribution of CFAF 7 billion), and (iii) other expenditure, mainly on domestically financed investment (about CFAF 6 billion). On the revenue side, the carryover into 2002 of the revenue shortfall experienced in 2001 could result in a shortfall of some ½ of 1 percentage point of GDP.

25. **To return to a fiscal stance compatible with the program objectives, the authorities have decided to take strong fiscal measures to address the gap resulting from the unplanned expenditure and the revenue shortfall at customs**. To that end, they have identified spending cuts, mostly in nonpriority expenditures, and developed an action plan to boost revenue collection, mainly at customs. As a result, the primary balance, excluding foreign-financed investment, is projected at 0.6 percent of GDP in 2002 (1.0 percent of GDP, taking into account the proposed World Bank's contribution to financing the cotton subsidy), slightly lower than targeted (1.4 percent of GDP), while the overall fiscal deficit, on a payment order basis and excluding grants, is likely to be contained at 5.2 percent of GDP (4.8 percent of GDP, taking into account the proposed World Bank's contribution to financing the cotton subsidy), compared with the targeted deficit of 4.2 percent.

26. The staff and the authorities agreed that the revenue action plans outlined in the MEFP (para. 21) would be appropriate to **raise total revenue** to 16.6 percent of GDP, close to the initial program target and 0.4 percent of GDP higher than the level reached in 2001. The measures are centered on the implementation of critical recommendations of past Fund technical assistance, in particular, administrative measures to correct the customs underperformance in 2001. These include strengthened procedures to (i) cross-check systematically customs declarations with information from the domestic tax department, (ii) render mandatory the use of preshipment inspection for all imports above a predetermined value, (iii) assess customs valuation, (iv) strictly monitor exemptions, (v) combat fraud and corruption, and (vi) speed up the repayment of tax in arrears. In addition, the authorities have requested the Fund's technical assistance to help prepare fiscal and administrative measures that could further enhance revenue performance.

27. As indicated in the MEFP (para. 20), **the government has identified spending cuts in nonpriority expenditure** equivalent to CFAF 23 billion (1.2 percent of GDP) **to compensate for the additional expenditure commitments.**[15] The wage bill, at 4.8 percent of GDP, exceeds the original target of 4½ percent of GDP but is planned to decline to 4.6 percent of GDP in 2004. Contractual primary teachers and basic health employees would continue to be hired at the local level and financed through central government transfers with

[15] The spending cuts mostly include a reduction of domestically-financed capital expenditure (CFAF 17 billion), which does not affect social sectors. Current expenditure are reduced by CFAF 6 billion, including CFAF 2.2 billion for social sectors.

resources obtained in the context of the HIPC Initiative. As regards social spending in 2002, the government has increased budget appropriations for education from 4.1 percent of GDP to 4.3 percent, while health expenditure would remain almost stable at 2.0 percent of GDP. The increase in social spending includes the use of additional interim assistance received in the context of the HIPC Initiative. Public investment is expected to increase from 7.8 percent of GDP in 2001 to 8.1 percent of GDP in 2002 (compared with the 8.5 percent of GDP originally programmed).[16] The government indicated that the execution rate of externally financed projects in 2002 should be kept at least at its 2001 level of about 90 percent, mainly thanks to an intensification of the use of specialized autonomous agencies to execute projects. The government has decided to settle wage arrears (identified in the inventory of outstanding claims of civil servants completed in 2001 and totaling CFAF 20.8 billion) over a period of six years, starting in 2002 with a budgetary allocation to that effect of CFAF 3.3 billion.

28. The **overall financing gap** should be covered by debt relief to be obtained in the context of the HIPC Initiative (1.1 percent of GDP), Fund assistance (0.4 percent of GDP), and grants and loans tied to adjustment programs from multilateral and bilateral donors (1 percent of GDP). There would be a limited drawdown of about 0.5 percent of GDP of government deposits with the central bank.

29. Regarding the **budget reform program**, the staff encouraged the authorities to implement the recommendations proposed by the Report on the Observance of Standards and Codes (ROSC) Fiscal Transparency Module. In this context, it discussed the measures described in the MEFP (para. 23) to strengthen budget monitoring with the assistance of the World Bank in the context of the PERAC credit. In particular, efforts would now concentrate on integrating external debt service and externally financed projects in SIGFIP to ensure a full coverage of government spending. The authorities will also pursue efforts to reconcile spending data of the treasury and the budget departments. In this context, the authorities are finalizing a survey to streamline the use of cash advance accounts (*comptes des régisseurs*). Moreover, the remaining balances of these accounts will be transferred to the treasury by end-December 2002.[17] The government has prepared, with the assistance of the World Bank and other donors, medium-term program budgets covering the period 2002-04 for, respectively, the Ministries of Education, Health, Rural Development, Transportation, Mining, Energy, and Urban Development and Environment. In addition, an MTEF for all

---

[16] As was the case in 2001(EBS/01/176, October 18, 2001), investment outlays include part payment for a possible purchase of an airplane for the president, for an amount of CFAF 3 billion in the 2002 budget. The authorities reiterated that they would inform the staff before entering into any agreement to purchase the plane (MEFP, paragraph 20).

[17] This measure will permit to avoid the recurrence of the large float experienced in 2002 (equivalent to 0.6 percent of GDP), which reflects the late payments in 2002 of expenditure committed in 2001.

ministries, covering both current and capital expenditures of the government, will be finalized and used for the PRSP costing. In this context, sectoral ministries will manage and monitor budget execution according to sector-specific indicators of output and outcome.

B. Regional Monetary Policy and the Financial Sector

30. **Regional monetary policy in 2002 will remain consistent with the fixed peg regime and a slight increase in the net foreign assets of the BCEAO**. For Benin, broad money is projected to expand at a slightly faster pace (7.6 percent) than nominal GDP growth, in line with the continued declining trend in velocity. Net domestic credit would increase by 4.9 percent in terms of beginning-of-period broad money, with barely any change in credit to the government, while credit to the nongovernment sector could increase by 10.6 percent. The safeguards assessment of the BCEAO were discussed with the authorities (see Box 3).

31. As regards the financial sector, the government will continue to support the regional banking commission's efforts to strengthen the financial position of the banking sector. In particular, against the background of the difficulties observed in 2001, the government will pursue efforts to have all banks meet the regional banking commission's prudential ratios. With regard to the state-controlled bank, the government is committed, as stated in the MEFP (paras. 24 and 35), to adopting a recovery plan in conformity with the recommendations of the banking commission, including a timetable for the selling of the government's shares. As regards the cooperative and mutual credit institutions, the authorities indicated that, with donors' support, they would continue to strengthen the unit in charge of supervising these institutions, enforce the regional law and regulations concerning them, and provide training to their personnel. The authorities also intend to ensure that the largest cooperative and mutual credit institution, FECECAM, continues to carry out its rehabilitation plan with foreign assistance.

C. Other Structural Reforms

32. **The government remains committed to implementing the structural reform program outlined in the MEFP** (paras. 25-32). In particular, it intends to pursue actively the divestiture program and the reform in the cotton sector, and give a new impetus to civil service reform. The reforms are essential to improve the quality of public expenditure and accelerate growth. Box 4 provides a summary of structural conditionality under current and past Fund-supported programs and of the areas where the World Bank staff has taken the lead.

33. **To accelerate economic growth and improve services delivery, the government is committed to speeding up implementation of the divesture program.** Concerning the electricity utility, the authorities intend to launch a competitive bidding for private sector management in the first quarter of 2003. In parallel, the authorities have started adjusting electricity tariffs and will adopt by September 2002 the measures required to strengthen the SBEE's financial situation. The authorities have also established clear timetables for the

divestiture of the OPT and private involvement in the management of PAC, and for the liberalization of cement imports and prices.

34. **In the area of civil service reform**, the government has again called on the National Assembly to vote on the amendments to the law on a new compensation system. In parallel, the authorities have decided to implement a policy of recruitment based on fixed-term contracts to replace retiring civil servants and to apply the merit-based promotion system to these contractual employees. The authorities will complete an actuarial study of the pension fund for the civil service and on this basis formulate, at the beginning of 2003, a strategy to eliminate its financial deficit over the medium term.

35. **In the cotton sector, the authorities remain committed to pursuing the reform program** (Box 2). The authorities intend to let the private sector determine the producer price for seed cotton in the framework of the established Interprofessional Cotton Association and without government interference. In that context, donors are helping to establish a price-setting mechanism for seed cotton that reflects the trend of world prices.[18] The government has established a privatization strategy for SONAPRA, together with a timetable for its implementation. The cotton sector liberalization policy is supported by the World Bank through a cotton sector credit that aims at strengthening the capacities of producer organizations, in order to move later toward a system that would encourage competition among ginning companies and eliminate the present allocation of seed cotton.

D. Governance

36. **The authorities reiterated their commitment to pursue vigorously all the cases of corruption brought to their attention and prosecute any verified acts.** The national strategy to fight corruption, prepared after broad consultation with the civil society, has been finalized, and the authorities are proceeding with the strengthening of the institutions required for its implementation. As regards problems that had risen with the privatization of the enterprise distributing petroleum products (SONACOP), the authorities indicated that they would pursue the judicial actions taken to protect the state's interest, and would recover arrears on tax payments and on dividend payments from the enterprise (MEFP, paras. 21 and 32).

E. Poverty Alleviation and Preparation of the PRSP

37. **On the basis of the interim PRSP and the poverty reduction programs supported with the resources coming from the enhanced HIPC Initiative, the authorities have pursued their efforts to expand basic education and health services.** For education, the

[18] The new price-setting mechanism is scheduled to be established in 2002; however, it might not be in effect before the 2003/04 crop year. In the meantime, the government has reiterated that it does not intend, based on the current world prices, to grant a producer price subsidy in the course of the next crop year.

authorities have eliminated tuition fees for all schoolchildren, and have allocated funds for rehabilitating classrooms and hiring teachers for the local communities. In the health sector, the authorities have increased budget appropriations for the improvement of reproductive health, child immunization, and the prevention of HIV/AIDS. These social expenditures have been financed largely by HIPC Initiative resources amounting to CFAF 15.7 billion in 2001 and projected at CFAF 19.9 billion in 2002 (Table 15). The tracking of overall government spending benefiting the poor, including the use of HIPC Initiative resources, has been facilitated by progress in expenditure management and budget programming.

38. Preliminary discussions on a full PRSP draft were held in Washington with Fund and World Bank staffs at end-February 2002.[19] In the meantime, other development partners also provided their feedback on the draft PRSP. Overall, Benin's partners recognized that the draft was systematically organized and contained the main building blocks of a full PRSP. However, weaknesses[20] were identified by development partners, which the authorities have indicated they would address to produce a high-quality PRSP. Since then, the staff has received indications that the authorities have been making the necessary improvements. A final draft is scheduled to be discussed with representatives of the civil society.

39. The **authorities consider the integration of social impact analysis into their antipoverty strategy to be critical.** Preliminary indications show that poverty in Benin remains widespread, with poverty indicators close to the sub-Saharan average (Table 13). As part of the PRSP preparation, the authorities have carried out a study to assess the impact on poverty reduction of the economic and structural policies undertaken over the past decade. The study, which is based on household surveys, concludes that the proportion of the population below the poverty line remained stable during the second half of the 1990s. The authorities wish to continue the analysis to ascertain the consistency of these results with the data on social indicators and real per capita GDP, which improved steadily over the same period. They are drawing up, with the assistance of the World Bank, an action plan to that effect, to be fully integrated in the PRSP. The plan is intended to strengthen the assessment of poverty determinants, deepen the analysis of the various aspects of nonmonetary poverty,

---

[19] The PRSP preparation status report and joint staff assessment of that report were considered by the Executive Board on November 2, 2001, together with the paper on the second review of the first-year program and the second-year program for Benin under the PRGF.

[20] The weaknesses identified could be grouped under five key aspects: (i) a weak poverty analysis, characterized by methodological and statistic shortcomings; (ii) a lack of precision in the definitions of intersector and intrasector policy priorities that contribute to poverty reduction; (iii) unclear definitions of the respective roles of the state, the decentralized institutions, and the private sector; (iv) the incompleteness of the medium-term expenditure framework (MTEF); and (v) a weak mechanism to monitor and evaluate the implementation of the strategy.

and develop a medium-term program to better understand the rationale behind the limited impact of growth on poverty reduction and the linkages between the improvement in social indicators and the stagnation in poverty reduction.

40. **The authorities expect that the structural reforms planned under the program for public utilities and the cotton sector will not only improve the efficiency of the economy but also benefit the poor over the medium term.** With regard to public utilities, the divestiture is expected to upgrade services and reduce costs to consumers in the medium term. In parallel, the government will continue to promote investment in the distribution of water and energy in rural areas. The liberalization of the cotton sector and the strengthening of producer associations are expected to give producers a larger share of revenue generated by the sector. In that context, the authorities will conduct, in collaboration with the private stakeholders of the sector, an in-depth assessment of the policies and programs in the cotton sector, in the form of a poverty social impact analysis (PSIA), starting in 2002.

41. In spite of the benefits expected from structural reforms in the medium term, the authorities recognize that, in the short run, **some of the reforms might have a negative impact on the poor**. Hence, in the context of the finalization of the MTEF and the budget programs for ministries, they intend to assess the social impact of key reforms with donors' assistance. In particular, they will seek to cushion the potential short-term negative impact on vulnerable groups of the divestiture program and the possible adjustments in utility tariffs.

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

42. The medium- and long-term balance of payments projections presented at the time of the second review of the program have been updated, based on the most recent available information and the latest projections of the World Economic Outlook (Box 5). Benin's external current account deficit is expected to narrow gradually from 8.3 percent of GDP in 2002 to 7.1 percent in 2003 and 6.2 percent in 2004. This trend will be driven mainly by the projected recovery of the world cotton price. The overall balance of payments is expected to remain close to the initial program targets in 2003-04. These projections will be updated, if necessary, following the finalization of the PRSP. Benin has a very good record of servicing its debt obligations, and, in view of its satisfactory balance of payments and fiscal positions, it is expected to discharge its future obligations to the Fund in a timely manner.

43. **The main risk to the forecast concerns the international price of cotton.** The cotton export prices used in the projections (Tables 7 and 8) were based on the average price projections of the World Economic Outlook of 49 U.S. cents per pound in 2002/03 and 54 U.S. cents per pound in 2003/04. An alternative scenario was prepared, using the price prevailing in April 2002, 40 cents per pound, over the next two years. Under such a scenario, and assuming that everything else remains the same, the current account deficit would widen by 1.2 and 1.8 percentage points of GDP in 2003 and 2004, respectively. The overall balance of payments would record a deterioration equal to that of the current account balance.

However, Benin should be able to finance its balance of payments deficit by drawing on its international reserves. Nevertheless, an important risk is that the current world cotton price, if fully passed on to producers, would have a negative impact on economic growth and poverty over the medium term. The authorities may be inclined to subsidize the producer price in the medium term, as was the case this year, unless key structural reforms are implemented to significantly increase the efficiency of the sector.

44. Benin also exports services and a few primary products other than cotton. Services, which accounted for 43 percent of exports of goods and nonfactor services over the last three years, mainly comprise transit-related activities to neighboring countries, principally Nigeria. To support these activities, the government intends to improve the competitiveness of the Autonomous Port of Cotonou by involving the private sector in the port's management. Noncotton exports have recently increased but still remain low (less than 12 percent of total exports over the last three years). Diversification continues to be a long-term challenge, to which the authorities are responding by further liberalizing the economy and by improving the institutional framework and the infrastructure needed to develop the private sector.

45. **Benin reached the decision point under the HIPC Initiative in July 2000** (EBS/00/118; 6/26/00) and is expected to reach the floating completion point by the end of 2002, once a full PRSP has been finalized and the authorities have met the completion point triggers (Table 17). In the interim, Benin has benefited from assistance granted by the Fund, the World Bank, the African Development Bank, the West African Bank of Development (BOAD), and Paris Club creditors amounting to CFAF 5.6 billion (0.3 percent of GDP) in 2000 and CFAF 15.7 billion (0.9 percent of GDP) in 2001. The Organization of Petroleum Exporting Countries (OPEC) has decided to provide its assistance through a loan, which has already been agreed upon although not yet disbursed. China and the BCEAO also indicated that they would provide debt relief after the completion point. As indicated in the attached Letter of Intent, the authorities have requested additional Fund interim assistance from the date of approval to June 30, 2003, as they expect to meet the completion point triggers during the second half of 2002 and thereby to reach the completion point towards the end of 2002.[21]

46. The Fund and World Bank staffs are finalizing, in collaboration with the authorities, an update of the **debt sustainability analysis** for Benin, which will support the completion point. Preliminary results of this analysis show that the ratio of the net present value of Benin's external debt to exports (after bilateral debt relief beyond HIPC Initiative assistance) would remain over 150 percent through 2003 but decline steadily, remaining below 150 percent in the subsequent years, whereas this ratio was expected to be slightly below 150 percent at the completion point. These results are explained by three

[21] The disbursement of the Fund's interim assistance would be SDR 3.66 million, covering 32.6 percent of the principal obligations falling due during July-December 2002 and 29.8 percent of the principal obligations falling due during January-June 2003.

factors. First, commercial interest reference rates (CIRR) at end-2001 were lower than at the end of 1998, which was the base year for the decision point. Second, current and projected export revenue was lower than at the decision point, owing to the fall in the world cotton prices. Third, new borrowing was higher than projected at the decision point. These preliminary results were discussed with the authorities, who agreed that a prudent policy as regards new borrowings was necessary to maintain the external debt on a sustainable path.

VI. Statistical Issues

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

VII. Staff Appraisal

48. **The staff considers that economic and financial performance under the PRGF-supported program was broadly satisfactory**. Benin continued to display rapid output growth with low inflation in 2001. All the quantitative performance criteria for end-December 2001 were met, and three of the four structural benchmarks were observed. But progress on the structural front has been slow, and there were delays in preparing a full PRSP. Therefore, the government needs to move forcefully in implementing measures that are essential for improving the economy's efficiency and attaining the ambitious growth objectives set for the medium term.

49. **The fiscal stance remains appropriate in 2002**, as the authorities have taken strong fiscal measures to address the gap that resulted from unplanned expenditure commitments and the revenue shortfall at customs. The achievement of the fiscal targets will, however, require the forceful implementation of the action plans to boost revenue collection, as well as an effective control over spending and restraint on nonpriority current outlays. In this respect, the granting of new wage concessions or further price subsidies in the cotton sector would derail efforts to rein in total spending and should be resisted. At the same time, the authorities are encouraged to pursue their efforts to enhance transparency further, in light of the completed ROSC Fiscal Transparency Module, including strengthening the new management expenditure system and the implementation of the medium-term expenditure programs for the key ministries, prepared with the assistance of the World Bank and other donors.

50. **The full and timely implementation of the structural reform agenda is of critical importance to the efforts to accelerate growth and reduce poverty.** The new timetable for the divestiture of public utilities and the privatization of SONAPRA should be strictly adhered to, while efforts to eliminate financial deficits of the public entities should be strengthened. It is also important that the long-delayed reform of the civil service compensation system be rapidly passed and implemented, in order to reduce pressures to increase wages and to improve civil service management.

51. **To strengthen the banking sector**, the authorities need to ensure that banks observe prudential ratios, in particular, those related to minimum capital requirements, and proceed with the selling of the government's shares in the state-controlled bank.

52. Regarding poverty alleviation, the authorities should continue to increase the size and quality of public spending in basic social services. **The authorities are** also **encouraged to finalize the preparation of a high-quality PRSP**, taking into account the outcome of the broad consultations with the civil society and the donor community, and to meet rapidly the floating HIPC Initiative completion point conditions.

53. **Risks to the program remain but are manageable.** Benin will continue to encounter the possibilities of a deterioration in the terms of trade that could impair the successful implementation of its program; the authorities will need to be prepared to strengthen its adjustment efforts, should such a shock occur.

54. In view of the satisfactory performance under the program and the authorities' determination to achieve the program objectives in the macroeconomic, structural, and poverty alleviation areas, **the staff recommends that the third review under the three-year PRGF arrangement be concluded and that the PRGF arrangement be extended to March 31, 2004. The staff also recommends that additional interim assistance under the HIPC Initiative be granted to Benin to cover debt service payments falling due to the Fund through June 30, 2003,** based on Benin's track record of financial performance under the program and satisfactory assurances that the participation of Benin's other creditors in the HIPC Initiative continues to be in place.

55. The staff proposes that the next Article IV consultation be held on the standard 12-month consultation cycle.

Box 1. Benin: Compliance with WAEMU Convergence Criteria
(In percent, unless otherwise indicated)

	Convergence Criterion	1999	2000	2001	2002 Proj.
Primary criteria					
Basic fiscal balance/GDP 1/	>=0.0	2.8	1.9	0.4	-0.6
Basic fiscal balance/GDP 2/	>=0.0	2.8	2.2	1.0	0.3
Inflation (annual average)	<=3.0	0.3	4.2	4.0	3.3
Total debt/GDP	<=70.0	55.0	37.0	37.0	37.0
Nonaccumulation of domestic arrears 3/	<=0.0	-11.3	-15.8	0.0	0.0
Nonaccumulation of external arrears	<=0.0	-13.3	-14.8	0.0	0.0
Secondary criteria					
Wages/tax revenue (in percent)	<=35.0	33.0	32.0	32.6	32.8
Domestically financed investment/tax revenue (in percent)	>=20.0	13.9	15.0	22.4	23.9
Current account deficit, excluding public transfers/GDP (in percent)	<=5.0	8.7	8.1	7.9	8.5
Tax revenue/GDP (in percent)	>=17.0	13.7	14.6	14.2	14.6

Sources: Beninese authorities; and staff estimates and projections.

1/ Basic fiscal balance is defined as total revenue minus total expenditure, excluding foreign-financed investment.
2/ Basic fiscal balance excluding use of HIPC Initiative resources.
3/ In billions of CFA francs.

Box 2. Benin: Reforms in the Cotton Sector

Cotton is the major cash crop in Benin. Production rose from 162,000 tons in 1992/93 to an estimated 385,000 tons in 2001/02, while producer prices were increased from CFAF 95 per kilogram to CFAF 200 per kilogram over the same period. The sector employs about 200,000 households. Cotton exports account for about 80 percent of exports.

Reforms. Since the early 1990s, Benin has engaged in liberalizing its cotton sector, moving away from the integrated monopsony that characterizes the organization of cotton production in western and central African countries. Its reform process is among the most advanced in the region; it has been supported by technical assistance from the World Bank and bilateral donors working closely with both the government and the private sector. The integrated *filière* has been dismantled. Private companies have been granted licenses to gin and export cotton, the monopsony of the state enterprise has been lifted, and prices and marketing decisions are negotiated among private sector operators (producers, ginning companies, and other market participants) at the national level; the once monopsonic state enterprise, SONAPRA, is about to be privatized.

Benin: Performance of the Cotton Sector, 1997/98-2001/02
(In units indicated)

	1997/98	1998/99	1999/00	2000/01	2001/02
Production of seedcotton (1,000 tons)	359.16	336.21	363.00	336.57	383.00
Production of fiber (1,000 tons)	150.98	138.26	152.58	141.41	160.86
Fiber yield (percent)	42	41	42	42	42
Cultivated area (1,000 hectares)	386.16	394.38	362.78	369.78	353.78
Producer price (CFA francs per kilogram)	200.00	221.00	185.00	200.00	200.00
Gross revenue per capita (CFA francs per annum)	359,162	371,708	335,775	336,565	383,000
Average export price of cotton fiber (CFA francs per kilogram)	810.00	664.00	639.00	640.00	600.00
Memorandum items:					
Cotton sector contribution to GDP (percent)	8	7	7	7	6
Share of cotton exports in total domestic exports (percent)	83	87	87	82	77
Share of producer price relative to export price (percent)	64	84	73	73	86

Price mechanism. The primary marketing of seed cotton is operated by the CSPR,[1] an autonomous professional agency regrouping ginners, input suppliers, and the cotton farmers' association. The price to be paid to farmers for their seed cotton for the next season is announced before the beginning of the planting season, generally in May or June, and remains the same throughout the harvest. The CSPR centralizes all purchases and then allocates seed cotton to individual ginners on the basis of installed ginning capacities. During its first year of operation (the 2000/01 crop season), the CSPR experienced some cash-flow problems, as some ginners did not pay for the received cotton and payments to producers were delayed. To try to avoid the recurrence of payment problems, the CSPR has strengthened its rules in 2001/02: delinquent ginners are banned from cotton allocation, and all ginners have to pay an initial 40 percent downpayment for seed cotton.

[1] The CSPR was created in October 2000 by sector participants to take over from SONAPRA management of the marketing of seed cotton and settlement of the bank credit that finances imports of fertilizers and pesticides.

Box 2. Benin: Reforms in the Cotton Sector (concluded)

The producer price for the 2001/02 crop season was set in May 2001 at CFAF 200 per kilogram in line with the prevailing world price. However, the world price for lint dropped before the beginning of the harvest (November 2001). In the circumstances, discussions were held between cotton stakeholders and the government, and an agreement was reached in December 2001 whereby the authorities, with the expected financial assistance from the World Bank (some CFAF 7 billion), decided to help sustain the farmgate price at CFAF 200 per kilogram by providing a price subsidy to farmers for a total amount of CFAF 18 billion (including the financing of the farmers' share for the extension service program for an amount of CFAF 3.5 billion).

Next steps. The reform aims at establishing a decentralized system of contract farming that would allow for decentralized pricing, eliminate the administrative allocation of seed cotton, and encourage competition among ginning companies. This requires, however, organizational, technical, and commercial capacities on the part of producer organizations that currently are underdeveloped. Consequently, as the next step in the transition, measures have been identified to strengthen the new institutions managing the sector, as well as producers' associations, with the support of a World Bank Cotton Sector Reform Project, approved in January 2002. In parallel, the World Bank is assisting in the design of a pricing mechanism that would allow producer prices to reflect changes in world prices.

Reform Summary

Date	Action
1992-93	The payment of seed cotton is subcontracted by SONAPRA to private firms. Private firms can bid for seasonal contracts to provide input (SONAPRA will decide on the type of inputs, quantity, and price until 1999).
1995	The government grants licenses to three private enterprises to gin cotton and export their production.
1997-98	Five additional ginning companies obtain licenses.
2000	The CSPR is created by sector participants to take over the primary marketing of seed cotton from SONAPRA.
2000-01	The monopsony of SONAPRA ends.
2001-02	The CSPR is solely responsible for input credit recovery, seed collection, and price determination.

Box 3. Benin: Safeguards Assessment of the BCEAO

The Central Bank of the West African States (BCEAO) is the common central bank of the West African States, which includes Benin. An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies.

Financial Reporting Framework: Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS), and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the **BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS**, as adopted internationally by other central banks.

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

The staff will follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the on-going safeguards monitoring process.

Box 4. Benin: Structural Conditionality

Status of structural conditionality from earlier programs

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

Coverage of structural conditionality in the 2000-02 program

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

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

Structural areas covered by World Bank lending and conditionality

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

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

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

Other relevant structural conditions not included in current program

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

1/ Privatization of a public enterprise involves the sale of its assets.

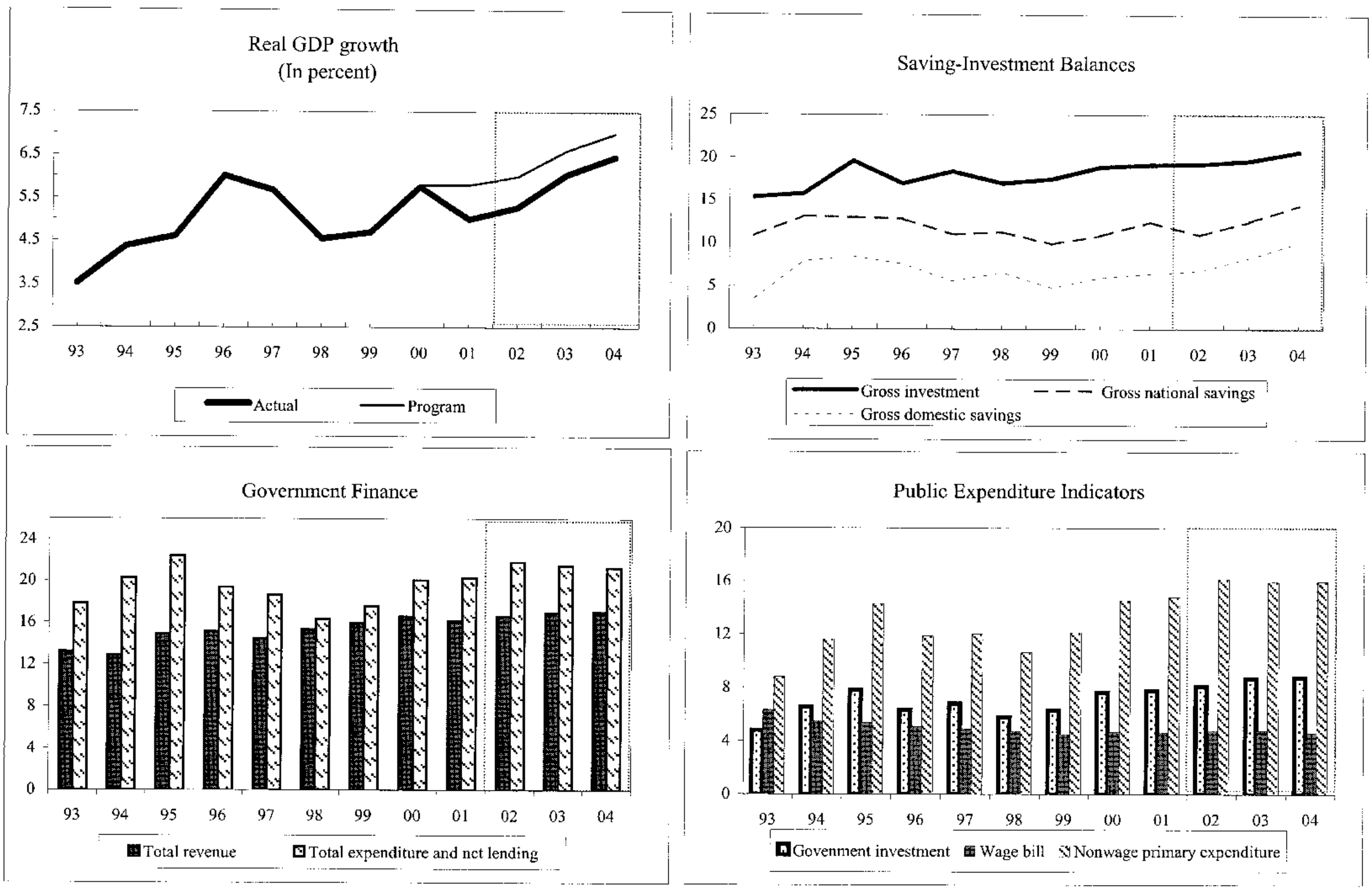
Box 5. Benin: Balance of Payments, 1999-2004

(In billions of CFA francs, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004
				Projections		
Program scenario						
Trade balance	-154.3	-181.9	-186.8	-198.8	-195.0	-197.1
Exports, f.o.b.	137.0	132.9	153.2	150.6	174.5	197.6
Of which						
Cotton	114.2	107.3	115.9	109.6	130.9	150.6
Imports, f.o.b.	-291.2	-314.8	-340.1	-349.4	-369.5	-394.7
Current account	-111.1	-128.8	-116.0	-155.1	-143.5	-137.5
As a percentage of GDP	-7.6	-8.0	-6.7	-8.3	-7.1	-6.2
Overall balance	111.1	52.0	96.6	-12.9	0.4	-14.4
Alternative scenario						
Trade balance	-154.3	-181.9	-186.8	-198.8	-219.1	-236.3
Exports, f.o.b.	137.0	132.9	153.2	150.6	150.4	158.4
Of which						
Cotton	114.2	107.3	115.9	109.6	106.8	111.4
Imports, f.o.b.	-291.2	-314.8	-340.1	-349.4	-369.5	-394.7
Current account	-111.1	-128.8	-116.0	-155.1	-167.6	-176.7
As a percentage of GDP	-7.6	-8.0	-6.7	-8.3	-8.3	-8.0
Overall balance	111.1	52.0	96.6	-12.9	-23.7	-53.6

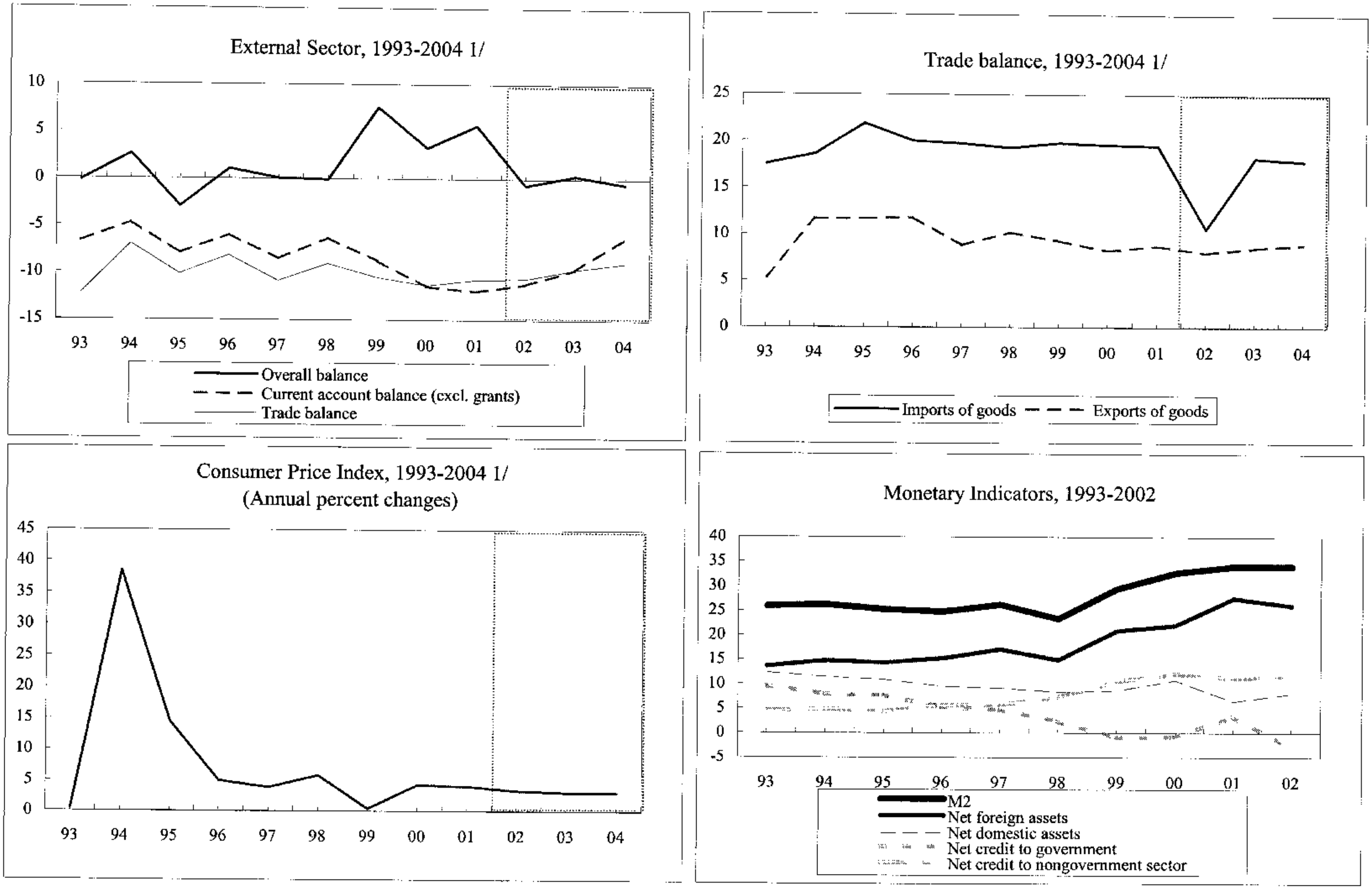
Sources: Beninese authorities; and staff estimates and projections.

Figure 1. Benin: Selected Economic and Financial Indicators. 1993-2004 1/
(In percent of GDP, unless indicated otherwise)



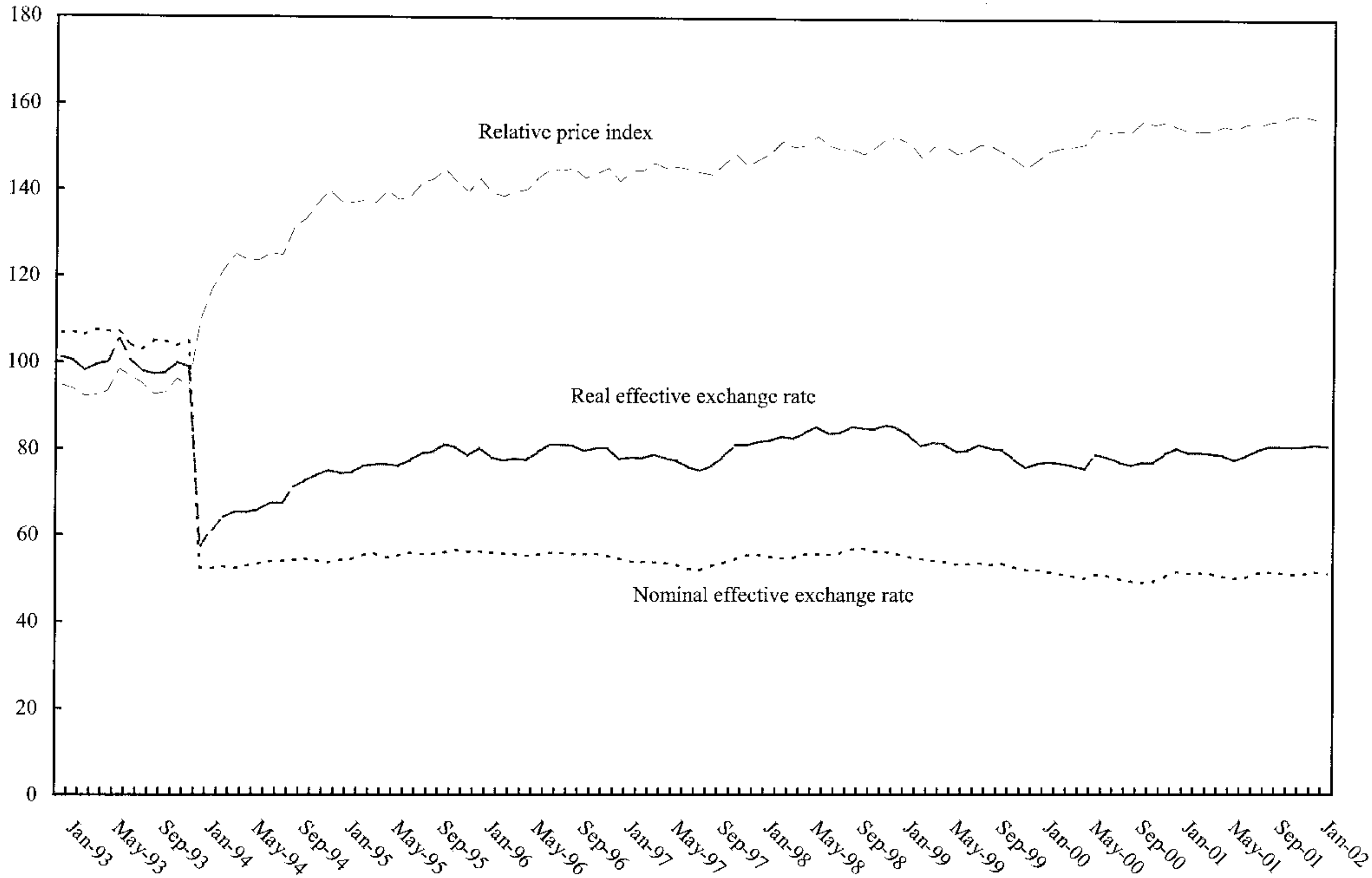
Sources: Beninese authorities; and staff estimates and projections.
1/ 2002-04 data are projections.

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



Sources: Beninese authorities; and staff estimates and projections.
1/ 2002-04 data are projections.

Figure 3. Benin. Effective Exchange Rates, January 1993-February 2002 1/
(Index, 1990 = 100)



Source: IMF, Information Notice System (INS).

1/ A rise in the exchange rate variables indicates an appreciation of the domestic currency.

Table 1. Benin: Proposed Schedule of Disbursements Under the Remainder of the PRGF Arrangement, 2002-03

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

Source: International Monetary Fund.

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

Table 2. Benin: Fund Position During the Remainder of the PRGF Arrangement, January 2002-December 2003

	2002		2003	
	Jan.-June	July-Dec.	Jan.-June	July-Dec.
	(In millions of SDRs)			
Transactions under tranche policies (net)	0.00	0.00	0.00	0.00
Purchases	0.00	0.00	0.00	0.00
Repurchases	0.00	0.00	0.00	0.00
Structural Adjustment Facility (SAF)	0.00	0.00	0.00	0.00
Loans	0.00	0.00	0.00	0.00
Repayments	0.00	0.00	0.00	0.00
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF)	-1.84	-1.85	-3.63	-4.17
Loans	4.04	4.04	2.69	1.35
Repayments	-5.88	-5.89	-6.32	-5.52
Repayments (principal)	-5.64	-5.64	-6.10	-5.31
Repayments (interest)	-0.24	-0.25	-0.22	-0.21
Total Fund credit outstanding, end of period	59.51	57.91	54.51	50.55
Tranche policies	0.00	0.00	0.00	0.00
SAF	0.00	0.00	0.00	0.00
ESAF/PRGF	59.51	57.91	54.51	50.55
	(In percent of quota)			
Total Fund credit outstanding, end of period	96.1	93.6	88.1	81.7
Tranche policies	0.0	0.0	0.0	0.0
SAF	0.0	0.0	0.0	0.0
ESAF/PRGF	96.1	93.6	88.1	81.7

Source: IMF, Treasurer's Department.

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

	1999	2000	2001		2002		2003		2004	
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
	(Annual changes in percent, unless otherwise indicated)									
National income										
GDP at current prices	6.7	9.2	9.4	8.3	8.6	7.4	9.1	8.5	9.4	8.7
GDP at constant prices	4.7	5.8	5.8	5.0	6.0	5.3	6.6	6.0	7.0	6.5
GDP deflator	1.9	3.3	3.4	3.1	2.4	2.0	2.4	2.3	2.2	2.1
Consumer price index (average)	0.3	4.2	3.0	4.0	2.5	3.3	2.0	3.0	2.0	3.0
Consumer price index (end of period)	-3.2	9.8	2.0	2.3	2.5	4.0	2.0	3.0	2.0	3.0
Central government finance										
Revenue	11.4	13.3	8.5	5.5	10.5	10.4	11.2	10.4	9.4	9.5
Expenditure and net lending	14.6	25.0	12.1	9.5	10.4	15.3	8.3	6.6	9.3	7.8
Money and credit										
Net domestic assets 2/	3.6	10.5	-3.9	-11.4	4.4	6.4	...	...	...	...
Domestic credit 2/	2.2	9.4	-2.3	-9.2	4.4	4.9	...	...	...	...
Net claims on central government 2/	-14.4	0.3	-7.8	-9.1	-1.0	1.5	...	...	...	...
Credit to the nongovernment sector	52.7	25.5	14.7	-0.3	14.0	10.6	...	...	...	...
Broad money	35.0	21.2	10.5	12.7	9.5	7.6	...	...	...	...
Velocity (GDP relative to average M2)	3.9	3.3	3.2	3.1	3.1	3.0	...	...	...	...
External sector (in terms of CFA francs)										
Exports, f.o.b.	-3.0	-3.0	18.0	15.3	6.9	-1.7	6.2	15.8	11.8	13.3
Imports, f.o.b.	9.6	8.1	8.6	8.0	5.4	2.8	7.0	5.7	7.5	6.8
Export volume	25.1	-11.0	-3.1	-2.8	11.2	18.1	5.1	0.5	4.1	3.7
Import volume	9.9	0.7	5.8	5.0	6.8	4.7	7.5	6.0	7.9	6.5
Terms of trade	-22.2	1.6	18.7	15.4	-2.5	-15.2	1.5	15.6	7.8	8.8
Nominal effective exchange rate (- deprec.)	-3.5	-2.9	...	1.1	...	...	...	...	...	...
Real effective exchange rate (- deprec.)	-3.5	4.4	...	2.1	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
Basic ratios										
Gross investment	17.5	18.9	19.4	19.2	20.5	19.3	21.2	19.7	22.0	19.7
Government investment	6.3	7.6	8.0	7.8	8.5	8.1	8.5	8.7	8.5	8.7
Private sector investment	11.2	11.3	11.4	11.4	12.0	11.2	12.7	11.0	13.5	11.0
Gross domestic saving	4.8	6.0	7.2	6.5	8.9	6.8	9.8	8.3	11.1	9.1
Government saving	5.5	4.9	4.7	4.4	5.1	3.7	5.5	4.9	5.5	5.2
Nongovernment saving	-0.7	1.1	2.5	2.1	3.8	3.1	4.3	3.5	5.6	4.0
Gross national saving 3/	9.9	10.9	12.8	12.5	13.5	11.0	14.0	12.6	15.3	13.5
Central government finance										
Revenue	16.0	16.6	16.5	16.2	16.7	16.6	17.1	16.9	17.1	17.0
Expenditure and net lending	17.6	20.1	20.6	20.3	20.9	21.8	20.8	21.5	20.8	21.3
Primary balance 4/	-0.7	-2.6	-3.2	-3.3	-3.3	-4.3	-2.9	-3.8	-3.0	-3.5
Overall fiscal deficit (payment order basis) 5/	-1.6	-3.5	-4.1	-4.2	-4.2	-5.2	-3.7	-4.5	-3.7	-4.2
Overall fiscal deficit (cash basis) 5/	-3.0	-5.5	-4.5	-4.1	-4.2	-5.8	-3.7	-4.5	-3.7	-4.2
Debt service 6/	17.2	14.6	8.2	9.2	7.7	7.4	6.8	6.3	6.5	5.8
External sector										
Current account balance (- deficit) 3/	-7.6	-8.0	-6.6	-6.7	-7.0	-8.3	-7.2	-7.1	-6.7	-6.2
Overall balance of payments (- deficit)	7.6	3.2	3.2	5.6	0.5	-0.7	0.5	0.0	-0.4	-0.7
Debt-service ratio (before debt relief)	17.0	18.3	15.8	15.7	15.4	16.0	15.0	15.6	13.5	13.8
Debt-service ratio (after debt relief) 7/	17.0	15.9	8.8	9.8	8.5	8.6	7.8	7.2	7.5	6.5
Net present value of debt-to-exports ratio (after debt relief) 7/	228.9	217.3	133.4	235.8	124.6	164.4	116.3	150.6	105.7	141.4
Debt-to-GDP ratio (after debt relief)	55.0	57.8	37.1	58.5	35.8	40.4	34.6	36.1	33.4	32.6
Gross reserves in months of imports 8/	6.9	8.0	...	10.3	...	10.0	...	...	...	...
Nominal GDP (in billions of CFA francs)	1,469.9	1,605.4	1,755.7	1,738.6	1,906.5	1,866.7	2,080.5	2,024.8	2,275.3	2,201.5
CFA francs per U.S. dollar (period average)	615.7	712.0	737.0	728.8	728.8	728.8	728.8	720.8	720.8	720.8
Population (midyear, in millions)	6.1	6.3	6.5	6.5	6.7	6.7	6.8	6.8	7.0	7.0

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/01/176 (10/18/01).
2/ In percent of broad money at the beginning of the period.
3/ Including current official grants but excluding project grants.
4/ Total revenue minus all expenditure, excluding interest.
5/ Before all official grants.
6/ Scheduled debt service in percent of fiscal revenue, including debt service to the Fund and excluding debt service to be paid by HIPC Initiative assistance.
7/ Net present value of total debt beyond HIPC Initiative assistance, in percent of current-year exports of goods and nonfactor services.
8/ Ratio of gross reserves of the BCEAO in months of the following-year imports of goods and nonfactor services

Table 4. Benin: Macroeconomic Indicators, 1999-2004

(In percent of GDP, unless otherwise indicated)

	1999	2000	2001		2002		2003		2004	
			Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Resource gap (1)	12.7	12.9	12.2	12.7	11.6	12.5	11.4	11.4	10.9	10.6
Exports of goods and nonfactor services	16.1	15.2	15.3	15.2	15.1	14.4	14.8	14.9	14.9	15.1
Imports of goods and nonfactor services	28.8	28.1	27.5	27.9	26.8	26.9	26.2	26.2	25.7	25.7
Total gross investment (2)	17.5	18.9	19.4	19.2	20.5	19.3	21.2	19.7	22.0	19.7
Central government investment (A)	6.3	7.6	8.0	7.8	8.5	8.1	8.5	8.7	8.5	8.7
Private sector investment (B)	11.2	11.3	11.4	11.4	12.0	11.2	12.7	11.0	13.5	11.0
Domestic saving (3) = (2) - (1)	4.8	6.0	7.2	6.5	8.9	6.8	9.8	8.3	11.1	9.1
National saving (6) = (3) + (4) + (5)	9.9	10.9	12.8	12.5	13.5	11.0	14.0	12.6	15.3	13.5
Net factor income (4)	-0.7	-0.5	-0.8	-0.9	-0.8	-0.9	-0.8	-0.9	-0.8	-0.8
Unrequited transfers (5)	5.8	5.5	6.4	6.9	5.5	5.1	5.0	5.1	4.9	5.2
Government national saving (7)	7.4	5.9	6.9	7.1	6.5	5.4	6.6	6.0	6.5	6.3
Budget deficit	-1.6	-3.5	-4.1	-4.2	-4.2	-5.2	-3.7	-4.5	-3.7	-4.2
Government investment	6.3	7.6	8.0	7.8	8.5	8.1	8.5	8.7	8.5	8.7
Public transfers (current)	2.7	1.8	3.0	3.5	2.1	2.5	1.8	1.9	1.8	1.8
Government domestic saving (8)	5.5	4.9	4.7	4.4	5.1	3.7	5.5	4.9	5.5	5.2
Public transfers (current)	2.7	1.8	3.0	3.5	2.1	2.5	1.8	1.9	1.8	1.8
Net factor income	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
Nongovernment national saving (9) = (6) - (7)	2.5	5.0	5.9	5.4	7.0	5.6	7.4	6.6	8.7	7.2
Nongovernment domestic saving (10) = (3) - (8)	-0.7	1.1	2.5	2.1	3.8	3.1	4.3	3.5	5.6	4.0
Saving-investment balance	-7.6	-8.0	-6.6	-6.7	-7.0	-8.3	-7.2	-7.1	-6.7	-6.2
Nongov. sector saving-investment balance (9) - (B)	-8.7	-6.3	-5.5	-6.0	-5.0	-5.6	-5.3	-4.4	-4.8	-3.8
Government Saving-investment balance (7) - (A)	1.1	-1.8	-1.1	-0.6	-2.1	-2.7	-1.9	-2.7	-1.9	-2.4
Nominal GDP (in billions of CFA francs)	1,469.9	1,605.4	1,755.7	1,738.6	1,906.5	1,866.7	2,080.5	2,024.8	2,275.3	2,201.5
Nominal GNP (in billions of CFA francs)	1,460.3	1,596.7	1,740.8	1,723.0	1,890.3	1,849.0	2,063.9	2,007.3	2,258.1	2,184.1

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

1/ As indicated in EBS/01/176 (10/18/01).

Table 5. Benin: Consolidated Government Operations, 1999-2004

	1999	2000	2001		2002		2003		2004	
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog.1/	Proj.	Prog. 1/	Proj.
					(In billions of CFA francs)					
Total revenue	234.9	266.2	288.8	281.0	319.1	310.3	354.9	342.6	388.4	375.1
Tax revenue	200.8	234.1	253.9	247.1	280.1	273.6	313.5	303.8	344.7	335.4
Tax on international trade 2/	106.8	126.7	139.5	133.2	152.9	145.2	170.1	165.0	184.3	181.2
Direct and indirect taxes	94.0	107.4	114.4	113.9	127.2	128.4	143.4	138.8	160.3	154.3
Nontax revenue	34.0	32.1	34.9	33.9	39.0	36.7	41.5	38.8	43.7	39.6
Total expenditure	258.0	322.5	361.7	353.2	399.2	407.4	432.5	434.3	472.6	468.1
Wages	66.2	74.8	80.8	80.7	85.8	89.5	92.8	96.3	101.5	101.2
Pensions and scholarships	18.3	19.3	21.3	20.5	22.4	22.4	23.5	23.5	24.7	24.7
Current transfers	20.5	26.8	47.8	41.5	48.5	67.2	52.9	53.7	61.9	61.0
Of which : subsidy to the cotton sector					0.0	18.0	0.0	0.0	0.0	0.0
Other expenditure	42.4	64.7	57.4	59.6	63.1	59.5	70.5	70.6	74.6	74.7
Investment	92.8	122.5	140.1	135.3	163.0	151.1	176.4	175.9	193.0	192.4
Budgetary contribution	28.0	35.0	54.5	55.4	72.0	60.1	74.0	73.5	81.1	80.4
Financed from abroad	64.8	87.4	85.6	79.8	91.0	91.0	102.4	102.4	112.0	112.0
Net lending (minus = reimbursement)	4.5	0.3	-2.0	0.4	0.0	1.8	0.0	-0.9	0.0	-0.9
Primary balance (narrow definition) 3/	55.1	45.2	29.0	22.8	27.3	9.8	41.2	25.8	44.7	33.9
Primary balance 4/	-9.7	-42.2	-56.6	-57.0	-63.7	-81.2	-61.2	-76.6	-67.3	-78.1
Interest	13.5	14.1	16.2	15.2	16.4	15.9	16.4	15.2	17.0	15.0
Internal debt	1.9	1.6	1.8	1.8	1.3	1.3	0.9	0.9	0.8	0.8
External debt	11.6	12.4	14.4	13.5	15.1	14.6	15.4	14.2	16.1	14.1
Overall balance (payment order basis)	-23.1	-56.3	-72.8	-72.3	-80.1	-97.1	-77.5	-91.7	-84.3	-93.0
Change in arrears	-24.6	-30.6	-4.0	-6.7	0.0	-0.3	0.0	0.0	0.0	0.0
External debt (principal and interest payments)	-13.3	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	-11.3	-15.8	-4.0	-6.7	0.0	-0.3	0.0	0.0	0.0	0.0
Payments during complementary period/float	3.2	-0.6	-1.5	8.4	0.0	-10.5	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-44.5	-87.5	-78.3	-70.6	-80.1	-107.9	-77.5	-91.7	-84.3	-93.0
Financing	44.6	87.5	78.3	70.6	69.3	107.8	55.4	66.5	64.0	68.8
Domestic financing	-35.8	13.9	-49.1	-49.0	-17.2	-2.7	-26.4	-13.6	-26.2	-19.2
Bank financing	-46.3	1.2	-40.8	-47.8	-5.7	8.8	-19.9	-4.8	-19.7	-11.7
Net use of Fund resources	0.6	-2.5	-3.1	-3.0	-3.0	-3.0	-6.9	-6.7	-7.9	-7.8
Disbursements	6.1	6.3	7.5	7.5	7.5	7.5	3.8	3.7	0.0	0.0
Repayments	-5.5	-8.9	-10.6	-10.5	-10.4	-10.4	-10.7	-10.4	-7.9	-7.8
Other	-46.9	3.8	-37.7	-44.7	-2.8	11.8	-13.0	1.9	-11.8	-4.0
Nonbank financing	10.5	12.6	-8.4	-1.3	-11.5	-11.5	-6.5	-8.8	-6.5	-7.5
Privatization	10.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.2	1.4	-7.0	-1.3	-10.0	-10.0	-5.0	-7.3	-5.0	-6.0
Other	0.0	10.3	-1.4	0.0	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
External financing	80.3	73.7	127.5	119.6	86.6	110.5	81.8	80.1	90.2	88.0
Project financing	63.0	74.4	85.6	79.8	91.0	91.0	102.4	102.4	112.0	112.0
Grants	33.9	25.3	41.4	24.5	44.2	44.2	49.7	49.7	54.4	54.4
Loans	29.1	49.1	44.2	55.3	46.8	46.8	52.7	52.7	57.6	57.6
Amortization due	-23.6	-22.9	-17.5	-17.5	-19.0	-18.6	-20.6	-22.3	-21.8	-24.0
Program aid	27.6	1.7	40.7	41.6	5.4	18.2	0.0	0.0	0.0	0.0
Grants	17.2	1.7	20.3	21.5	5.4	10.9	0.0	0.0	0.0	0.0
Loans	10.4	0.0	20.4	20.1	0.0	7.3	0.0	0.0	0.0	0.0
Debt relief obtained 5/	13.3	20.5	18.7	15.7	9.1	19.9	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	10.8	0.0	22.1	25.2	20.3	24.3
Possible HIPC Initiative assistance	0.0	0.0	0.0	0.0	10.8	0.0	22.1	25.2	20.3	24.3
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(In percent of GDP, unless otherwise indicated)					
Total revenue and grants	19.5	18.3	20.0	18.8	19.3	19.6	19.5	19.4	19.5	19.5
Grants	3.5	1.7	3.5	2.6	2.6	3.0	2.4	2.5	2.4	2.5
Total revenue	16.0	16.6	16.5	16.2	16.7	16.6	17.1	16.9	17.1	17.0
Total expenditure	17.6	20.1	20.6	20.3	20.9	21.8	20.8	21.5	20.8	21.3
Of which										
Wages	4.5	4.7	4.6	4.6	4.5	4.8	4.5	4.8	4.5	4.6
Public investment	6.3	7.6	8.0	7.8	8.5	8.1	8.5	8.7	8.5	8.7
Overall balance (payment order basis, excl. grants)	-1.6	-3.5	-4.1	-4.2	-4.2	-5.2	-3.7	-4.5	-3.7	-4.2
Excluding HIPC-financed expenditure	-1.6	-3.3	-3.3	-3.2	-3.4	-4.3	-2.9	-3.5	-3.0	-3.3
Overall balance (payment order basis, incl. grants)	1.9	-1.8	-0.6	-1.5	-1.6	-2.2	-1.3	-2.1	-1.3	-1.8
Primary balance (narrow definition)	4.1	2.8	1.5	1.3	1.4	0.6	2.0	1.2	2.0	1.5
Excluding HIPC-financed expenditure	4.1	3.1	2.4	2.3	2.3	1.5	2.8	2.2	2.7	2.4
Primary balance	-0.7	-2.6	-3.2	-3.3	-3.3	-4.3	-2.9	-3.8	-3.0	-3.5
Nominal GDP 6/	1,469.9	1,605.4	1,755.7	1,738.6	1,906.5	1,866.7	2,080.5	2,024.8	2,275.3	2,201.5

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/01/176 (10/18/01).
2/ Including value-added taxes on imports.
3/ Total revenue minus total expenditure, excluding investment financed from abroad, interest payments, and net lending.
4/ Total revenue minus total expenditure, excluding interest payments and net lending.
5/ Includes confirmed interim HIPC Initiative assistance from Paris Club, African Development Bank/Fund, West African Development Bank, Organization of Petroleum Exporting Countries, World Bank, and IMF.
6/ In billions of CFA francs.

Table 6. Benin: Monetary Survey, 1999-2002

	1999	2000	2001				2002			
			March	June	September	December	March	June	Sept.	Dec.
							Projections			
	(In billions of CFA francs)									
Net foreign assets	306.3	352.7	399.9	443.2	436.7	479.4	484.4	499.4	489.4	486.4
Central Bank of West African States (BCEAO)	203.8	261.5	312.0	354.3	352.8	373.8	378.8	393.8	383.8	380.8
Banks	102.5	91.2	87.9	88.9	83.9	105.6	105.6	105.6	105.6	105.6
Net domestic assets	127.3	172.9	162.8	139.9	114.9	113.2	124.0	130.0	131.3	151.1
Domestic credit	141.0	181.7	173.0	156.3	126.5	133.4	135.6	141.6	142.9	162.7
Net claims on central government	-13.6	-12.3	-28.7	-39.6	-47.8	-60.1	-64.1	-63.1	-52.1	-51.3
Credit to the nongovernment sector	154.6	194.0	201.7	195.9	174.3	193.5	199.7	204.7	195.0	214.0
Other items (net)	-13.8	-8.8	-10.2	-16.4	-11.6	-20.2	-11.6	-11.6	-11.6	-11.6
Broad money (M2)	433.6	525.6	562.7	583.1	551.6	592.6	608.4	629.4	620.7	637.5
Currency	164.5	211.2	243.1	260.5	223.1	222.3	261.0	279.7	263.5	238.7
Bank deposits	263.8	308.3	313.1	315.4	320.0	360.3	339.6	342.0	348.1	389.5
Deposits with CCP 1/	5.2	6.1	6.5	7.2	8.5	8.6	7.8	7.7	9.1	9.2
	(In percentage of beginning-of-period broad money, unless otherwise indicated)									
Net foreign assets	31.4	10.7	9.0	17.2	16.0	24.1	0.8	3.4	1.7	1.2
Net domestic assets	3.6	10.5	-1.9	-6.3	-11.0	-11.4	1.8	2.8	3.1	6.4
Domestic credit	2.2	9.4	-1.6	-4.8	-10.5	-9.2	0.4	1.4	1.6	4.9
Net claims on government	-14.4	0.3	-3.1	-5.2	-6.7	-9.1	-0.7	-0.5	1.3	1.5
Credit to nongovernment sector	16.6	9.1	1.5	0.4	-3.8	-0.1	1.0	1.9	0.3	3.5
Broad money (percentage change over beginning of period)	35.0	21.2	7.1	10.9	5.0	12.7	2.7	6.2	4.7	7.6
Velocity of broad money (GDP relative to average M2)	3.9	3.3	...	...	0.0	3.1	...	...	...	3.0
Credit to the nongovernment sector (annual change in percent)	52.7	25.5	12.7	13.7	0.7	-0.3	-1.0	4.5	11.9	10.6
Nominal GDP (in billions of CFA francs)	1,469.9	1,605.4	...	...	0.0	1,738.6	...	...	...	1,866.7

Sources: BCEAO; and staff estimates and projections.

1/ CCP = Comptes Cheques Postaux.

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

	1999	2000	2001		2002		2003		2004	
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
					(In billions of CFA francs)					
Trade balance	-154.3	-181.9	-180.8	-186.8	-188.3	-198.8	-202.8	-195.0	-210.6	-197.1
Exports, f.o.b.	137.0	132.9	154.4	153.2	165.1	150.6	175.3	174.5	195.9	197.6
Cotton and textile	114.2	107.3	120.2	115.9	127.8	109.6	134.8	130.9	152.0	150.6
Oil	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	21.9	25.6	34.1	37.3	37.3	41.0	40.5	43.6	43.9	47.0
Imports, f.o.b.	-291.2	-314.8	-335.2	-340.1	-353.3	-349.4	-378.1	-369.5	-406.4	-394.7
Of which										
Petroleum products	-34.4	-46.8	-56.7	-40.1	-54.4	-43.6	-53.2	-43.8	-53.8	-44.5
Services (net)	-32.2	-25.8	-33.5	-34.1	-33.5	-34.3	-34.9	-34.9	-36.8	-36.4
Credit	100.3	110.9	115.0	110.8	123.7	117.7	132.9	126.3	142.4	135.0
Debit	-132.5	-136.6	-148.5	-144.9	-157.2	-152.0	-167.7	-161.2	-179.2	-171.4
Income (net)	-9.6	-8.7	-14.8	-15.6	-16.2	-17.7	-16.6	-17.5	-17.3	-17.5
Of which										
Interest due on government debt	-11.6	-12.8	-14.4	-13.5	-15.1	-14.6	-15.4	-14.2	-16.1	-14.1
Current transfers (net)	84.9	87.6	112.7	120.6	104.0	95.8	105.1	103.9	111.7	113.6
Unrequited private transfers	45.3	59.5	59.5	59.5	63.2	49.6	67.2	66.1	71.4	73.7
Public current transfers	39.6	28.1	53.2	61.1	40.8	46.2	37.9	37.8	40.3	40.0
Of which										
Program grants	17.2	1.7	20.3	21.5	5.4	10.9	0.0	0.0	0.0	0.0
Current account	-111.1	-128.8	-116.4	-116.0	-134.0	-155.0	-149.2	-143.5	-153.0	-137.4
Capital account	40.9	32.3	48.6	31.8	51.6	51.6	57.4	57.3	62.3	62.3
Official project grants	40.9	32.3	48.6	31.8	51.6	51.6	57.4	57.3	62.3	62.3
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	181.3	148.4	124.5	180.8	92.4	90.5	101.7	86.5	80.6	60.7
Medium- and long-term public capital	19.1	29.5	50.6	61.3	31.3	39.0	35.7	34.0	39.5	37.3
Disbursements	42.7	52.4	68.0	78.8	50.3	57.6	56.3	56.3	61.3	61.3
Project loans	32.3	52.4	47.6	58.7	50.3	50.3	56.3	56.3	61.3	61.3
Program loans	10.4	0.0	20.4	20.1	0.0	7.3	0.0	0.0	0.0	0.0
Amortization due	-23.6	-22.9	-17.5	-17.5	-19.0	-18.6	-20.6	-22.3	-21.8	-24.0
Medium- and long-term private capital	47.5	53.2	35.0	35.1	38.0	30.4	40.0	49.3	32.3	39.6
Deposit money banks	10.2	11.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	16.2	-1.6	39.0	88.1	23.2	2.3	26.1	3.2	8.8	-16.2
Errors and omissions	88.3	56.0	0.0	-3.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	111.1	52.0	56.7	96.6	10.1	-12.9	9.9	0.4	-10.2	-14.4
Financing	-111.1	-52.0	-56.7	-96.6	-20.9	12.9	-32.0	-25.6	-10.1	-9.9
Change in net foreign assets (- increase)	-111.1	-57.7	-75.4	-112.3	-30.0	-7.0	-32.0	-25.6	-10.1	-9.9
Of which										
Net use of Fund resources	0.6	-2.5	-3.1	-3.0	-3.0	-3.0	-6.9	-6.7	-7.9	-7.8
Loans	6.1	6.3	7.5	7.5	7.5	7.5	3.8	3.7	0.0	0.0
Repayments	-5.5	-8.9	-10.6	-10.5	-10.4	-10.4	-10.7	-10.4	-7.9	-7.8
Change in external arrears (– increase)	-13.3	-14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	-4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-13.3	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 2/	13.3	20.5	18.7	15.7	9.1	19.9	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	10.8	0.0	22.1	25.2	20.3	24.3
Possible HIPC Initiative assistance 3/	0.0	0.0	0.0	0.0	10.8	0.0	22.1	25.2	20.3	24.3
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(In percent of GDP)					
Exports	9.3	8.3	8.8	8.8	8.7	8.1	8.4	8.6	8.6	9.0
Imports	19.8	19.6	19.1	19.6	18.5	18.7	18.2	18.2	17.9	17.9
Current account, including program grants	-7.6	-8.0	-6.6	-6.7	-7.0	-8.3	-7.2	-7.1	-6.7	-6.2
Current account, excluding program grants	-8.7	-8.1	-7.8	-7.9	-7.3	-8.9	-7.2	-7.1	-6.7	-6.2
					(Annual changes in percent)					
Volume of exports	25.1	-11.0	-3.1	-2.8	11.2	18.1	5.1	0.5	4.1	3.7
Of which										
Cotton products	31.6	-11.1	-8.2	-3.2	11.7	13.6	5.1	0.0	3.7	3.5
Export unit price	-22.4	9.0	21.9	18.6	-3.8	-16.7	1.0	15.2	7.4	9.2
Of which										
Ginned cotton	-26.1	5.5	20.9	11.7	-5.8	-16.8	-1.1	16.3	7.7	10.2
Volume of imports	9.9	0.7	5.8	5.0	6.8	4.7	7.5	6.0	7.9	6.5
Import unit price	-0.3	7.3	2.7	2.8	-1.3	-1.9	-0.4	-0.3	-0.4	0.3

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/01/176 (10/18/01).

2/ Includes confirmed interim HIPC Initiative assistance from Paris Club, African Development Bank/Fund, West African Development Bank, Organization of Petroleum Exporting Countries.

3/ HIPC Initiative assistance after completion point.

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

(In millions of U.S. dollars)

	1999	2000	2001		2002		2003		2004	
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
Trade balance	-250.9	-258.0	-245.3	-256.3	-258.3	-272.8	-278.3	-270.6	-292.1	-273.4
Exports, f.o.b.	222.8	188.5	209.4	210.3	226.5	206.7	240.5	242.0	271.7	274.1
Cotton and textile	185.7	152.2	163.1	159.1	175.3	150.4	184.9	181.6	210.8	208.9
Oil	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	35.6	36.3	46.3	51.2	51.2	56.3	55.6	60.4	60.9	65.3
Imports, f.o.b.	-473.7	-446.5	-454.8	-466.6	-484.8	-479.4	-518.7	-512.6	-563.9	-547.6
Of which										
Petroleum products	-56.0	-66.4	-77.0	-55.0	-74.6	-59.9	-73.0	-60.7	-74.6	-61.7
Services (net)	-52.4	-36.5	-45.5	-46.8	-46.0	-47.0	-47.9	-48.4	-51.1	-50.5
Credit	163.2	157.2	156.0	152.0	169.7	161.5	182.3	175.2	197.5	187.3
Debit	-215.5	-193.8	-201.4	-198.8	-215.7	-208.5	-230.2	-223.6	-248.6	-237.8
Income (net)	-15.6	-12.3	-20.1	-21.4	-22.2	-24.3	-22.7	-24.3	-24.0	-24.3
Of which										
Interest due on government debt	-18.9	-18.1	-19.6	-18.5	-20.7	-20.0	-21.2	-19.7	-22.4	-19.6
Current transfers (net)	138.2	124.3	152.9	165.4	142.7	131.4	144.1	144.1	154.9	157.7
Unrequited private transfers	73.7	84.4	80.7	81.6	86.8	68.0	92.2	91.7	99.1	102.2
Public current transfers	64.5	39.9	72.2	83.8	55.9	63.4	51.9	52.4	55.9	55.5
Current account	-180.8	-182.6	-158.0	-159.2	-183.8	-212.7	-204.7	-199.1	-212.3	-190.6
Capital account	66.6	45.8	66.0	43.6	70.8	70.8	78.7	79.6	86.4	86.4
Official project grants	66.6	45.8	66.0	43.6	70.8	70.8	78.7	79.6	86.4	86.4
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	295.0	210.5	168.9	248.1	126.8	124.2	139.6	120.0	111.8	84.2
Medium- and long-term public capital	31.1	41.8	68.6	84.1	42.9	53.5	48.9	47.2	54.8	51.7
Disbursements	69.5	74.3	92.3	108.1	69.0	79.0	77.2	78.1	85.0	85.1
Project loans	52.6	74.3	64.6	80.5	69.0	69.0	77.2	78.1	85.0	85.1
Program loans	16.9	0.0	27.7	27.6	0.0	10.0	0.0	0.0	0.0	0.0
Amortization due	-38.4	-32.4	-23.7	-24.0	-26.1	-25.5	-28.3	-30.9	-30.3	-33.3
Medium- and long-term private capital	77.3	75.5	47.5	48.2	52.1	41.7	54.9	68.4	44.9	55.0
Deposit money banks	16.6	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	26.3	-2.3	52.9	120.9	31.8	28.8	35.8	4.4	12.1	-22.5
Errors and omissions	143.7	79.5	0.0	-5.0	0.0	0.1	0.0	0.0	0.0	0.0
Overall balance	180.7	73.7	76.9	132.5	13.9	-17.7	13.6	0.5	-14.1	-19.9
Financing	-180.7	-73.7	-77.0	-132.6	-28.6	17.7	-43.9	-35.5	-14.0	-13.7
Change in net foreign assets (- increase)	-180.7	-81.8	-102.3	-154.1	-41.2	-9.6	-43.9	-35.5	-14.0	-13.7
Of which										
Net use of Fund resources	1.0	-3.6	-4.2	-4.2	-4.1	-4.1	-9.4	-9.3	-10.9	-10.8
Loans	9.9	9.0	10.2	10.2	10.2	10.2	5.2	5.1	0.0	0.0
Repayments	-8.9	-12.6	-14.4	-14.4	-14.3	-14.3	-14.6	-14.4	-10.9	-10.8
Change in external arrears (+ increase)	-21.6	-21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.0	-6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-21.6	-13.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief obtained 2/	21.6	29.0	25.3	21.5	12.5	27.3	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.1	0.0	14.8	0.0	30.3	35.0	28.1	33.7
Possible HIPC Initiative Assistance 3/	0.0	0.0	0.1	0.0	14.8	0.0	30.3	35.0	28.1	33.7
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/01/176 (10/18/01).

2/ Includes confirmed interim HIPC Interim assistance from Paris Club, African Development Bank/Fund, West African Development Bank, Organization of Petroleum Countries, World Bank, and IMF.

3/ HIPC Intitative assistance after completion point.

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

(In billions of CFA francs)

	1999	2000	2001	2002	2003	2004
				Projections		
Total debt service due 1/	40.4	44.5	41.5	42.9	47.0	46.0
Interest	11.6	12.8	13.5	14.6	14.2	14.1
Principal	28.8	31.7	28.0	28.3	32.7	31.8
On disbursed debt at end-2001	40.4	44.5	41.5	42.4	46.0	44.5
Multilaterals (excluding IMF)	18.1	21.0	23.0	24.3	25.0	25.4
IMF	5.4	9.5	10.8	10.0	10.7	8.0
Paris Club	11.0	10.8	6.2	6.6	7.3	7.7
Other bilaterals	5.6	3.1	1.4	1.6	3.0	3.4
Short-term debt	0.3	0.0	0.0	0.0	0.0	0.0
Interest	11.6	12.8	13.5	14.1	13.2	12.6
Multilaterals (excluding IMF)	6.0	6.6	7.3	8.1	7.7	7.3
IMF	0.2	0.7	0.3	0.3	0.2	0.2
Paris Club	4.8	5.0	5.3	5.1	4.9	4.7
Other bilaterals	0.3	0.4	0.6	0.7	0.5	0.5
Short-term debt	0.3	0.0	0.0	0.0	0.0	0.0
Principal	28.8	31.7	28.0	28.3	32.7	31.8
Multilaterals (excluding IMF)	12.1	14.4	15.7	16.2	17.3	18.1
IMF	5.2	8.9	10.5	9.7	10.5	7.8
Paris Club	6.2	5.8	0.9	1.5	2.4	3.0
Other bilaterals	5.2	2.6	0.8	0.9	2.5	3.0
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Debt service on new disbursements	0.0	0.0	0.0	0.5	1.0	1.5
Interest	0.0	0.0	0.0	0.5	1.0	1.5
Principal	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief and HIPC Initiative assistance	13.3	20.5	15.7	19.9	25.2	24.3
Interest	6.7	6.8	5.2	6.6	8.4	8.1
Principal	6.6	13.7	10.5	13.3	16.8	16.2
Repayment of arrears	13.3	14.8	0.0	0.0	0.0	0.0
Interest	6.7	4.9	0.0	0.0	0.0	0.0
Principal	6.6	9.9	0.0	0.0	0.0	0.0
Total debt service after debt relief 2/	40.4	38.8	25.8	23.0	21.7	21.7
Interest	11.6	10.9	8.2	8.0	5.8	6.1
Principal	28.8	27.9	17.6	15.0	15.9	15.6
Debt outstanding, before traditional relief	817.1	936.7	988.9	936.7	894.3	860.3
Debt outstanding, after traditional relief and enhanced HIPC Initiative	808.2	927.2	1017.3	754.9	731.8	717.3
Net present value (NPV) of debt before traditional relief	547.6	541.7	571.9	569.1	566.0	567.2
NPV of debt after traditional relief and enhanced HIPC Initiative	543.1	529.7	622.7	441.2	452.9	470.2

Sources: Beninese authorities; and staff estimates and projections.

1/ Before traditional debt relief and enhanced HIPC.
2/ After traditional debt relief and enhanced HIPC.

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

	1999	2000	2001		2002	2003	2004
			Prog. 1/	Est.	Projections		
	(In billions of CFA francs, unless otherwise indicated)						
HIPC assistance given							
Interest due before HIPC assistance	11.6	12.8	14.4	13.5	14.6	14.2	14.1
Interest paid before HIPC assistance	11.6	12.8	14.4	13.5	14.6	14.2	14.1
HIPC relief on interest	...	1.9	5.2	5.2	6.6	8.4	8.1
Interest due after HIPC assistance	...	10.9	14.4	8.2	8.0	5.8	6.1
Amortization due before HIPC assistance	28.8	31.7	28.0	28.0	28.3	32.7	31.8
Amortization paid before HIPC assistance	28.8	31.7	28.0	28.0	28.3	32.7	31.8
HIPC relief on amortization	...	3.8	10.4	10.5	13.3	16.8	16.2
Amortization due after HIPC assistance	...	27.9	28.0	17.6	15.0	15.9	15.6
HIPC relief provided as exceptional financing (to cover debt service due)	...	5.7	18.7	15.7	19.9	25.2	24.3
Total HIPC assistance	...	5.7	18.7	15.7	19.9	25.2	24.3
Total HIPC assistance (in U.S. dollars)	...	8.0	25.7	21.5	27.6	35.0	33.7
Net cash flow to the budget from HIPC assistance	...	5.7	18.7	15.7	19.9	25.2	24.3
Memorandum items:							
Investment and program financing	90.6	76.1	126.3	121.4	109.2	102.4	112.0
Total net external flows (net external financing less debt service due)	50.2	31.6	83.9	79.9	66.3	55.4	66.0
Functional and other poverty-reducing government expenditures (country specific)	(In percent of GDP)						
Baseline pre-HIPC assistance expenditure projections	17.6	19.7	19.5	19.4	20.8	20.2	20.2
Post-HIPC assistance expenditure projections	...	20.1	20.6	20.3	21.8	21.5	21.3
Memorandum items:							
Tax revenues	16.0	16.6	16.5	16.2	16.6	16.9	17.0
Overall fiscal balance before HIPC assistance 2/	-1.6	-3.3	-3.1	-3.1	-4.1	-2.7	-3.3
Overall fiscal balance after HIPC assistance 2/	-1.6	-3.5	-4.1	-4.2	-5.2	-4.5	-4.2

Sources: Beninese authorities; and staff estimates and projections.

1/ As indicated in EBS/01/176 (11/02/01).

2/ On a payment order basis and excluding grants.

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

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
									Proj.	
Outstanding Fund credit 1/										
In millions of SDRs	56.6	68.9	70.4	66.5	67.2	64.4	61.1	57.9	50.6	42.0
In billions of CFA francs	42.9	51.2	56.5	53.2	56.4	59.9	56.4	53.4	46.1	38.4
In percent of quota 2/	91.4	111.4	113.7	107.4	108.5	104.1	98.8	93.6	81.7	67.9
In percent of GDP	4.3	4.5	4.5	3.9	3.8	3.7	3.2	2.9	2.3	1.7
In percent of exports of goods and services	22.0	23.6	27.9	22.6	23.8	24.6	21.4	19.9	15.3	11.5
Debt service to the Fund 1/										
In millions of SDRs	1.5	1.7	3.7	4.6	7.2	10.3	12.1	11.8	11.9	9.0
In billions of CFA francs	1.1	1.3	3.0	3.7	5.4	9.5	11.2	10.9	10.8	7.8
In percent of quota 2/	2.4	2.8	6.0	7.4	11.7	16.6	19.6	19.1	19.2	14.6
In percent of GDP	0.1	0.1	0.2	0.3	0.4	0.6	0.6	0.6	0.5	0.4
In percent of exports of goods and services	0.6	0.6	1.5	1.6	2.3	3.9	4.2	4.1	3.6	2.3
In percent of debt service due	2.5	3.6	7.2	10.5	13.4	21.4	26.9	25.4	23.1	17.0

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

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

Table 12. Benin: Public Expenditure for Health and Education, 1999-2002

	1999			2000				2001				2002
	Budget	Execution	Rate of Execution 1/	Budget 2/	Execution	Of which: HIPC assist.	Rate of Execution 1/	Budget 2/	Execution	Of which: HIPC assist.	Rate of Execution 1/	Budget
	(In billions of CFA francs, unless otherwise specified)											
Health	30.9	25.5	82.5	31.6	26.1	0.6	82.6	40.8	36.2	8.7	88.8	36.4
Current outlays	14.2	13.2	93.0	16.6	11.1	0.6	67.0	23.5	19.1	8.1	81.3	19.7
Personnel	5.9	5.0	84.7	6.8	4.5	0.6	65.9	6.8	5.4	2.1	79.1	6.7
Nonpersonnel	8.3	8.2	98.8	9.7	6.6		67.8	16.7	13.7	6.1	82.2	13.0
Investment program	16.7	12.3	73.7	15.0	15.0		99.8	17.3	17.1	0.5	99.0	16.7
Domestically financed	2.6	2.1	82.3	2.1	1.3		62.8	7.3	6.3	0.5	87.2	8.7
Financed from abroad	14.1	10.2	72.3	13.0	13.6		105.0	10.0	10.8		107.5	8.0
Education	51.0	45.0	88.2	63.6	51.6	3.0	81.1	74.2	71.1	6.7	95.8	80.5
Current outlays	40.2	38.3	95.3	46.5	41.3	3.0	88.8	56.9	53.2	4.2	93.5	55.2
Personnel	28.8	27.0	93.9	31.7	26.3	1.0	82.9	33.5	34.4	2.0	102.8	33.8
Nonpersonnel	11.4	11.3	99.1	14.8	15.0	2.0	101.7	23.4	18.8	2.3	80.2	21.4
Investment program	10.8	6.7	61.9	17.1	10.3		60.2	17.3	17.9	2.4	103.4	25.3
Domestically financed	2.8	1.2	42.4	6.4	2.2		34.1	8.1	10.4	2.4	128.0	13.4
Financed from abroad	8.0	5.5	68.8	10.7	8.1		75.9	9.2	7.5	...	81.8	11.9
	(In percent of GDP)											
Total expenditure 3/	5.6	4.8	...	5.9	4.8	0.2	...	6.6	6.2	0.9	...	6.3
Current outlays	3.7	3.5	...	3.9	3.3	0.2	...	4.6	4.2	0.7	...	4.0
Personnel	2.4	2.2	...	2.4	1.9	0.1	...	2.3	2.3	0.2	...	2.2
Nonpersonnel	1.4	1.3	...	1.5	1.3	0.1	...	2.3	1.9	0.5	...	1.8
Investment program	1.9	1.3	...	2.0	1.6	...	...	2.0	2.0	0.2	...	2.2
Domestically financed	0.4	0.2	...	0.5	0.2	...	...	0.9	1.0	0.2	...	1.2
Financed from abroad	1.5	1.1	...	1.5	1.4	...	...	1.1	1.1	...	...	1.1

Sources: Beninese authorities; and staff estimates and projections.

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

Table 13. Benin: Selected Demographic and Social Indicators

Indicator	Sub-Saharan Africa 1/	Latest Single Year 1970-75	1980-85	1990-95	1999 2/
		(In units indicated)			
GNP per capita (U.S. dollars)	510	220	280	350	380
Population					
Total (thousands)	612,409	3,029.0	4,043.0	5,475.0	6,114.1
Annual growth rate (in percent)	2.6	2.6	3.2	2.8	2.7
Urban population (percent of total)	32.3	21.9	30.8	41.8	41.5
Life expectancy (years)	50.8	44.5	48.0	50.2	53.4
Total fertility rate (births per woman)	5.5	7.0	7.0	6.0	5.7
Total, ages 15-64 (thousands)	320,053	1,582	2,012	2,691	3,093
Education		(Percent of school-age population)			
Primary school enrollment ratio (gross)	76.7	50.0	68.0	73.3	80.0
Male	84.1	70.0	90.0	93.2	94.0
Female	69.2	31.0	45.0	53.5	65.0
Secondary school enrollment ratio	26.5	9.0	17.0	15.7	18.5
		(In units indicated)			
Primary school pupil-to-teacher ratio	41.0	53.0	33.0	52.0	52.6
Adult illiteracy rate (in percent of total)					
Population ages 15 and above	41.7	85.8	78.0	68.5	61.0
Female	49.6	92.3	87.4	80.9	76.4
Health					
Infant mortality rate (per 1,000 live births)	91.4	151.0	117.5	94.9	86.7
Access to safe water (percentage of population)	46.5	34.0	...	54.0	61.0
Urban	73.7	83.0	...	...	...
Rural	31.9	20.0	...	...	...
Food production index (1989-91=100)	109.4	49.5	79.9	130.4	121.1
Child malnutrition (percentage of children under age 5)	28.4	...	...	24.0	29.0

Source: World Bank, *World Development Indicators, World Bank Africa Database, SSPR.*

1/ Latest year available.
2/ 1999 data where available; otherwise, 1998 or latest available year.

Table 14. Benin: Financial and Structural Benchmarks and Performance Criteria Under the Program for 2001

(In billions of CFA francs, unless otherwise indicated)

	2001					
	September 1/			December 2/		
	Prog. 3/	Adjusted targets 4/	Est.	Prog. 3/	Adjusted target 4/	Est.
Quantitative financial benchmarks						
Net bank credit to the government 2/ 4/	-52.0	-53.0	-47.9	-51.0	-50.8	-60.1
Nonaccumulation of new external payments arrears by the central government (cumulative since end-September 2001) 2/ 5/	0.0		0.0	0.0		0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government 2/ 6/ 7/	0.0		0.0	0.0		0.0
Short-term external debt with a maturity of less than one year (stock) 2/ 7/	0.0		0.0	0.0		0.0
Structural benchmarks						
Submission of amendments to the law on a new performance-based compensation mechanism to a vote of the National Assembly 1/				End-December		Done: amendme submitted but no
Completion of an inventory of outstanding claims of civil servants on the government 1/				End-December		Done
Agreement with Fund staff on an action plan to privatize the remaining state-controlled bank 1/				End-December		Not done
Reconciliation of the end-2000 account balances of the treasury, budget department, externally financed public investment projects, and agencies that are included in the financial operations of the central government 1/				End-December		Done
Health expenditure (cumulative since end-June 2001) 1/ 8/	15.0		12.6	30.0		28.4
Education expenditure (cumulative since end-June 2001) 1/ 8/	24.1		15.9	48.2		45.9
Indicators (cumulative amount since end-December 2000)						
Total government revenue 9/	204.0		196.8	288.8		278.7
Primary government expenditure 10/	165.7		163.6	260.1		287.2
Wage bill	60.8		59.6	80.8		80.7
Memorandum items:						
Non-project-related external assistance, excluding debt relief (cumulative since end-June 2001)	12.8		10.1	30.6		29.5
Target for spending on projects financed by HIPC Initiative (cumulative since end-June 2001) 11/	6.2		2.5	12.5		13.3

1/ Benchmarks.

2/ Performance criteria.

3/ As indicated in EBS/01/176 (10/18/01).

4/ As stipulated in EBS/01/176, program targets were to be adjusted downward (upward) by the amount by which disbursements on non-project-related external assistance, excluding debt relief, exceed (fall short of) the amount programmed; the required correction in case of shortfall of external assistance was to be limited to CFAF 17 billion at the end of December 2001. Program targets were to be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed for restructuring expenditure. They were also be adjusted downward by the amount of unspending on projects financed by the HIPC Initiative. For **end-September**, the program target is to be adjusted upward by CFAF 2.7 billion, reflecting a shortfall in projected disbursements of CFAF 2.6 billions from the European Union and of CFAF 0.1 billions from the World Bank. It has also to be adjusted downward by CFAF 3.7 billion of unspending on projects financed by the HIPC Initiative. Proceeds from privatizatiion were zero. For **end-December**, the program target is to be ajusted upward by CFAF 0.2 billion, representing a shortfall in projected disbursments from the European Union (0.1) and the World Bank (0.1). There was no unspending on projects financed by the HIPC Initiative; there were also no proceeds from privatization.

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

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

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

8/ Total expenditures.

9/ Excluding grants.

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

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

Table 15. Benin: Use of HIPC Initiative Funds, 2000-01
(In million of CFA francs)

Policy Areas	Measures	2000	2001
Health	Recruit personnel to fill vacant positions at primary health care facilities.	550	2085
	Implement AIDS program.		872
	Implement antimalaria program.		1,221
	Procure medicaments for health centers.		1,704
	Improve access to safe water.		547
	Improve health system.		1,420
	Increase child immunization.		837
Education	Recruit teachers to fill vacant positions in rural areas.	950	1,956
	Eliminate school fees for all students in rural areas and compensate schools for the loss of revenue.	2,000	2,123
	Refurbish classrooms.		293
	Refurbish classroom equipment.		2,145
	Conduct a study on improving the education system.		150
Rural development	Maintain feeder roads.		750
Total		3,500	16,103
HIPC Initiative resources		5,600	15,700

Table 16. Benin: Summary of Key Structural Reforms, April 2002–June 2003

Policy Areas	Strategies and Measures	Timing of Measures
Tax administration	Adopt an action plan to strengthen customs administration, including implementation of measures agreed with the preshipment inspection company.	
	Complete the computerized link between the tax and customs departments.	December 2002
	Complete the reinforcement of the tax unit in charge of large enterprises.	December 2002
Expenditure control	Complete a study to assess the efficiency of cash advance accounts (*comptes des régisseurs*).	September 2002
	Finalize and reconcile the account balances of the treasury and the budget departments for the fiscal year 2001	October 2002
	Prepare 2003 program budgets and performance indicators for the ministries in charge of education, health, transportation, rural development, and urban development and environment. 1/	October 2002
	Prepare a medium-term expenditure framework (MTEF) for 2003-05 and submit it to the National Assembly. 1/	October 2002
	Integrate in the new computerized budget management system (SIGFIP) all government expenditure.	January 2003
Civil service reform	Implement a recruitment policy based on fixed-term contracts and apply the merit-based compensation system to those contracts.	
	Adopt an action plan to reform the civil service pension fund (FNRB).	April 2003
	Use the single database (FUR) for civil servants' preparation of monthly payrolls.	September 2002
Decentralization	Adopt an action plan for implementing the devolution policy. 1/	March 2003
Governance	Adopt an anticorruption strategy.	July 2002
	Adopt an action plan for the collection of customs duties in arrears and accrued dividends from the company distributing petroleum products (SONACOP).	September 2002
Public enterprises 1/	Electricity sector:	
	• Adopt an action plan to restore financial equilibrium of the water and electricity company (SBEE).	September 2002
	• Establish the regulatory body to oversee the sector.	November 2002
	• Launch international bids for the concession of SBEE to the private sector.	March 2003
	Post and telecommunications:	
	• Establish the body in charge of regulating the telecommunications sector.	September 2002
	• Launch international bids for the privatization of the telecommunications company (OPT).	April 2003
	Cotton sector:	
	• Launch international bids for the privatization of the state-owned ginning company (SONAPRA).	October 2002
	• Establish a producer price-setting mechanism based on international prices.	September 2002
	Port of Cotonou:	
	• Decide an option for private sector's participation in port management.	August 2002
	• Launch international bids for private sector's participation in port management.	First semester 2003
Health 1/	Finalize the 2001-03 development plan.	July 2002
	Adopt a monitoring and evaluation system for the health sector.	March 2003
Education 1/	Finalize sector strategy.	September 2002
	Adopt action plan to increase the rate of pupils finishing primary school from 55 percent to 70 percent by school-year 2004/05.	September 2002
Financial sector	Adopt an action plan to strengthen the state-controlled bank based on the banking commission's recommendations, including the timing for the sale of the state's shares.	July 2002
Price policy	Liberalize imports and price of cement.	August 2002

1/ Areas where the World Bank is assisting the authorities.

Table 17. Benin: Progress in Implementing Completion Point Conditions

Policy Areas	Measures 1/	Implementation Status (As of June 15, 2002)
1. Poverty reduction		
	Prepare the poverty reduction strategy paper (PRSP) through a participatory process.	**Not yet done.** A first draft of the full PRSP has been completed.
	Adopt and implement a system of monitoring and evaluating poverty.	**Not yet done.** A system of monitoring and evaluating poverty is being prepared and is expected to be adopted at the same time as the final version of the PRSP.
2. Macroeconomic environment		
	Maintain stable macroeconomic environment, as evidenced by satisfactory performance under a program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF).	Benin's macroeconomic program remains broadly on track.
3. Structural measures		
Government financial management		
	Establish a medium-term expenditure allocation program and set performance indicators for the Ministries of Education, Health, Transport, Rural Development, and Environment.	**Not yet done.** A medium-term expenditure framework (MTEF) for the period 2002-04 and performance indicators for the five ministries have not yet been finalized.
	Produce treasury balance on a monthly basis with delay of no more than 30 days.	**Not yet done.** Treasury balances have not been regularly prepared.
Governance		
	Adopt an anticorruption strategy.	**Not yet done.** The finalized strategy is in the process of adoption.
Cotton sector		
	Adopt a strategy to privatize the public enterprise SONAPRA, after its monopsony has been abolished.	**Done.** A strategy to privatize the enterprise was adopted in May 2002.
4. Social sector		
Health		
	Adopt a medium-term expenditure program for the expansion of basic health services that includes as benchmarks the following:	
	• an increase in the internal budgetary financing for the improvement of reproductive health and the prevention of HIV/AIDS to at least CFAF 500 million in the budget 2001; and	**Done.** Budget appropriation for reproductive health, child immunization, and prevention of HIV/AIDS was set at CFAF 2.8 billion in the 2001 budget.

Table 17. Benin: Progress in Implementing Completion Point Conditions (concluded)

Policy Areas	Measures 1/	Implementation Status (As of June 15, 2002)
	• the attainment of an average rate of 85 percent of children at 1 year of age, who are immunized against DPTC3, and at least 75 percent in each region; and the attainment of an average rate of at least 80 percent of children at 1 year of age who are immunized against measles, and at least 70 percent in each region.	**Done**. The immunizations rate against DPTC3 is 96 percent at the national level, while the immunization rate against measles is 97 percent at the national level.
	Adopt a monitoring and evaluation system for the health sector.	**Not yet done.** The Ministry of Health initiated a decree creating a monitoring and evaluation unit in each region, similar to one existing at the national level.
	Present a strategy plan to fight HIV/AIDS to the National Assembly.	**Not yet done**. A strategy plan to fight HIV/AIDS has been prepared for the period 2000-05 but has yet not been presented to the National Assembly.
Education		
	Adopt a medium-term expenditure program for the expansion of basic education services, which includes as benchmarks the following:	
	• the elimination of schools fees for all pupils in all rural schools, and provision of grants to rural schools to compensate for the loss of revenue from school fees; and	**Done**. School fees have been eliminated.
	• the provision of grants to local communities prepared to assume the responsibility for hiring teachers to fill school vacancies.	**Done**. The budget appropriation for transfers to communities amounted to CFAF 0.9 billion in 2000 and to CFAF 1.96 billion in 2001.
	Eliminate repetition at grade 1.	**Done**. A measure to eliminate repetition at grade 1 was been taken and has been implemented since the beginning of the school year 2000/01.

1/ From EBS/00/118 (6/26/00).

Cotonou, June 27, 2002

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

Dear Mr. Köhler:

1. On behalf of the government of Benin, I am pleased to send you the attached memorandum on economic and financial policies for 2002. This memorandum describes the progress made during the first half of the second year of the program that the Fund supports under an arrangement under the Poverty Reduction and Growth Facility (PRGF). The memorandum also indicates the policies and measures planned for the remainder of 2002. The attached technical memorandum of understanding also specifies the definitions of benchmarks and criteria presented in Tables 1 and 2 of Appendix I and the reporting requirements.

2. As indicated in paragraph 4 of the memorandum, all the quantitative performance criteria for the period July-December 2001 were observed.

3. The government is convinced that the policies and measures set forth in the memorandum on economic and financial policies are adequate to achieve the objectives of its program. The government will provide the International Monetary Fund with information that it may request for purposes of monitoring progress in implementing its economic and financial policies.

4. The government proposes that the fifth loan under the arrangement, in an amount equivalent to SDR 4.04 million, be conditioned on the observance of end-September 2002 performance criteria (Table 2) and completion of the fourth review under the arrangement, which is expected by mid-December 2002. The fourth review will assess economic and financial developments from January to September 2002, the outlook for the remainder of 2002 and 2003, and the implementation of the poverty reduction strategy. The sixth and seventh loans, in amounts equivalent to SDR 2.69 million and SDR 1.35 million, would be conditioned on completion of the fifth and sixth reviews and on observance of end-March and end-September 2003 performance criteria; these performance criteria will be set in the context of the fourth and fifth reviews, respectively. The government requests an extension of the PRGF arrangement to March 31, 2004, in order to allow disbursement of the seventh and final loan under the arrangement.

5. The government of Benin requests an additional interim assistance of SDR 3.66 million under the HIPC Initiative to cover debt-service payments to the Fund falling due from the date of approval to June 30, 2003 on the basis of Benin's observance of all performance

criteria for the fourth loan and all of the conditions for the second and the third reviews. In the meantime, it is taking steps to meet the completion point triggers before the end of 2002. As was the case in the past, the government consents to the Fund's publication of this letter, the memorandum of economic and financial policies for 2002, the technical memorandum of understanding, and the staff report for the 2002 Article IV consultation and the third review under the PRGF.

Sincerely yours,

/s/

GREGOIRE LAOUROU
Minister of Finance and Economy

Attachments: Memorandum on Economic and Financial Policies for 2002
Technical Memorandum of Understanding

BENIN

Memorandum on Economic and Financial Policies for 2002

June 27, 2002

I. Introduction

1. Discussions in the context of the arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Cotonou on March 11-22, 2002 and in Washington on April 22-25, 2002 between the government of Benin and a Fund mission, covering the third review of the medium-term program and the Article IV consultation. The discussions covered progress made in program implementation since July 2001, and the outlook and measures planned for the remainder of 2002, including key elements of the 2002 budget. The government of Benin reaffirms its commitment to implement all the policies presented in the present document, which supplements the memorandum on economic and financial policies prepared in October 2001.

II. Program Implementation, July to December 2001

2. The program for 2001 was prepared in the context of the medium-term strategy for 2001-04, which aims at achieving sustainable economic growth, reducing poverty, and maintaining financial viability by strengthening macroeconomic policies over the medium term and liberalizing the economy.

3. At the end of 2001, the economic situation was broadly in line with the program targets agreed during the second review in July–August 2001. Real GDP grew by an estimated 5.0 percent, a slightly lower rate than the target of 5.8 percent, mainly because lower-than-expected food production in certain regions of the country was only partly compensated for by the strong growth in the industrial, services, construction, and public works sectors. Inflation was contained at 4.0 percent, despite the midyear price increase of certain foodstuffs. The current account deficit, including current transfers, was equivalent to 6.7 percent of GDP in 2001, as projected in the program, largely because of the improvement in the terms of trade owing to the fall in the price of petroleum products. The worldwide recession and the fall in world cotton prices had no substantial effect on the current account balance since most of the export sales contracts for the 2000/01 cotton crop had been negotiated in mid-2001. The overall balance of payments was, however, in surplus, partly because the continued high level of disbursement of project and program loans enabled Benin to contribute CFAF 112 billion to the international reserves of the Central Bank of West African States (BCEAO).

4. All the quantitative performance criteria for the period July-December 2001 were met. Net bank credit to the government amounted to CFAF –60.1 billion, compared with an adjusted target of CFAF –50.8 billion.

5. Three of the four structural benchmarks were met:

- The government submitted the amendments to the law on the new compensation system to a vote by the National Assembly; these amendments were, however, not examined by the National Assembly.
- An inventory of civil servants' outstanding claims was finalized, and its results were discussed with the Fund mission.
- The government reconciled the end-2000 account balances of the treasury and the budget directorates and the agencies included in the government's financial operations.

The structural benchmark that was not met was the one related to an agreement with the Fund staff on an action plan to privatize the remaining state-controlled bank.

A. Government Finance and Fiscal Reforms

6. The overall government finance program objectives were broadly met. In 2001, the overall fiscal balance, on a payment order basis and excluding grants, recorded a deficit equivalent to 4.2 percent of GDP, as programmed. Total revenue reached 16.2 percent of GDP, as against a target of 16.5 percent, owing primarily to a poorer-than-expected customs performance. Revenue performance from direct and indirect taxes and from nontax receipts was close to the level set in the program. The level of total expenditure remained within the program limits. In particular, the wage bill was kept below the program target of 4.6 percent of GDP. Finally, outlay targets for education and health were reached at 97 percent and 96 percent, respectively.

7. Despite the difficulties encountered in implementing a new computerized expenditure management system (SIGFIP), most of the expenditures financed from domestic resources were processed by SIGFIP. However, some difficulties persisted in reconciling the operations of the treasury and the budget departments in 2001, leading to the continued use of procedures for cash advances. However, the operations were reconciled and the balances of the cash advance accounts (*comptes des régisseurs*) were transferred to the treasury at year's end. The government continued to implement a series of actions recommended by an IMF Fiscal Affairs Department mission that aimed to make SIGFIP more operational overall. In particular, the government strengthened user training and made increased use of technical assistance to operate the system. In addition a computerized connection was established between the treasury computer system and SIGFIP.

B. Money and Credit Developments

8. Broad money expanded by 12.7 percent in 2001. This expansion resulted from a strong increase in the net foreign assets, mainly deriving from the continued repatriation of export receipts and from the conversion into domestic currency of French franc cash balances prior to the transition to the euro. Net domestic assets declined primarily because the government's net position strengthened, while credit to the private sector stagnated.

9. The financial health of the banking system improved overall in 2001. The situation of the two banks placed under temporary receivership and that of a third bank under close supervision improved somewhat. The new prudential ratios came into effect on January 1, 2002. In particular, the capital adequacy ratio was raised to a minimum of 8 percent, a criterion that is met by only three of the six banks, one of which started up in September 2001.

10. Of the three nonbank financial institutions, only one presented an acceptable statement of accounts to the banking commission. The government withdrew its approval from the other two institutions. In the microfinance sector, the implementation of the recovery and transformation plan of FECECAM, the country's largest microfinance bank, continued, producing encouraging results.

C. Structural Reforms

11. Significant progress was made in 2001 in cotton sector reforms. The responsibility for the marketing and collection of seed cotton and of the settlement of loans was transferred from the state cotton enterprise, SONAPRA (Société Nationale pour la Promotion Agricole), to the autonomous agency CSPR (Centrale de Sécurisation des Paiements et du Recouvrement), which comprises ginning enterprises, input distributors, and producers. Payments arrears of SONAPRA and of a private ginning mill to the CSPR caused delays in paying the cotton producers; however, SONAPRA settled its payment, and CSPR engaged in legal proceedings to obtain the payment it was owed by the private company. Moreover, in order to avoid a recurrence of payment problems during the 2001/02 crop year, CSPR required all ginning enterprises to comply with the system of advance deposits, equivalent to 40 percent of the value of the seed cotton allocation, and excluded debtor companies from seed cotton allocation.

12. The 2001/02 harvest started at a time of sharp decline in world cotton prices, and, therefore the producer price established between the sector participants at the end of the previous harvest failed to reflect the change in world prices. In this context, cotton sector participants (ginning enterprises, producers, input importers, etc.) and the government agreed to share the resulting loss and to maintain the producer price at CFAF 200 per kilogram. The government also decided to take over the producers' share. To fund the corresponding total subsidy, the government sought external financing and obtained, in principle, an agreement from the World Bank for partial financing of this subsidy.

13. With regard to the divestiture program, several reforms have been undertaken, albeit at differing speeds. For the telecommunications company (OPT), the government established through the ordinance of January 31, 2002 a legal framework enabling the separation of the two branches, the post office and telecommunications, and the establishment of the regulatory body. Moreover, a National Forum on Water and Electricity was organized in June 2001, following which a scheme for separating water and electricity activities was accepted, and the government set up a strategy for opening the electricity branch of the water and electricity distribution company (SBEE) to the private sector in the form of a management contract. With regard to the Autonomous Port of Cotonou (PAC), a study setting out the way to involve the private sector in the management of the port has been finalized.

14. The implementation of the devolution policy also suffered delays following the further postponement of the local elections to December 2002.

15. In the context of its ongoing action program to promote good governance, the government finalized a national strategic plan for combating corruption after consultation with the civil society at a seminar in October 2001. This plan is now the foundation for the anticorruption strategy in Benin. It is based on the authorities' political determination to fight corruption through the following strategies: (i) accelerating administrative and institutional reforms; (ii) establishing an efficient legal framework for fighting corruption; (iii) pursuing fiscal consolidation; (iv) promoting the rule of law and strengthening the role of the civil society; and (v) enforcing a code of ethics for civil servants and improving their incomes.

16. The government continues to participate actively in the initiatives aiming to strengthen regional integration within the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS). At end-2001, Benin observed all the core criteria for macroeconomic convergence, except for the one on inflation, as the union target of 3 percent was exceeded very slightly.

III. Medium-Term Framework

17. The medium-term macroeconomic framework for 2002-04, as reflected in the memorandum of October 5, 2001, has been changed to take into account recent developments in the national and international economic environment. The growth target for 2002 has been revised downward from 6 percent to 5.3 percent, owing to the fall in the world price of cotton, which has, however, been offset by a record production of seed cotton and a lower-than-expected growth outlook in Nigeria. The projected growth rate has also been revised from 6.6 percent to 6.0 percent for 2003 and from 7.0 percent to 6.5 percent for 2004. The inflation targets remain close to the WAEMU convergence criterion (3.3 percent in 2002 and 3.0 percent in 2003 and 2004). The projected level of the external current account deficit has been revised upward from 7.0 percent to 8.3 percent of GDP in 2002 because of the deterioration in the terms of trade caused by the drop in the price of cotton on the world markets and the expected weakness in private sector capital transfers. The external current

account deficits for 2003 and 2004 are projected to reach 7.1 percent and 6.3 percent of GDP, respectively. Nevertheless, Benin will continue to contribute positively to the BCEAO's net external reserves. In order to achieve these targets, the government intends to maintain fiscal and monetary policies aiming at financial stability. In this context, the overall deficit target (on a payment order basis and excluding grants) will decrease from 5.2 percent of GDP in 2002 to 4.6 percent in 2003, and to 4.4 percent in 2004.

18. The government is finalizing a poverty reduction strategy paper (PRSP), which will cover the period 2002-04, in broad consultation with various social groups in the country. This document will provide a diagnosis of poverty in Benin and will present national priorities and the main focal points of strategy for the 2002-04 period. The paper will also outline the medium-term macroeconomic framework for the strategy, as well as the medium-term expenditure framework (MTEF), prepared with the assistance of the World Bank. Finally the PRSP will establish the mechanism for monitoring and evaluating the strategy during its implementation. The government intends to modify the current macroeconomic framework once the PRSP has been finalized and the financing required to cover any new expenditures has been identified.

IV. Policies and Measures Planned for 2002

19. The year 2002 began in an international environment of weak world cotton prices. The situation has been further complicated, as the prolonged civil service strikes led the government to reach an agreement with the trade unions on a greater-than-expected increase in salaries and on commitments to pay wage arrears, for which an inventory had been made at end-2001. Moreover, the government has had to reexamine the timetable of structural reforms.

A. Fiscal Policy and Budget Reform

20. The financial program for 2002 set forth in the previous memorandum (October 5, 2001) was revised to take into account the fall in customs revenue collected in 2001 and the additional expenditure resulting from the government's major decisions regarding salary increases and exceptional price subsidies for cotton producers. In this context, the government has taken the corrective measures necessary to ensure a return to the initial program targets. The government intends to contain the fiscal deficit, on a payment order basis and excluding grants, at 5.2 percent of GDP. The revenue target has been revised to 16.6 percent of GDP, or 0.4 percent of GDP higher than the 2001 outturn. To achieve this target, the government has decided to intensify the strengthening of the tax and customs administration in order to broaden the tax base. Moreover, it intends to limit budget appropriations for nonpriority expenditures on goods and services and current transfers, while maintaining as far as possible the budget allocated to expenditure for poverty reduction. Thus, primary expenditures will be capped at a level of CFAF 298.7 billion, or 16 percent of GDP, including a subsidy for the cotton sector of CFAF 18.0 billion. The 2002 program will also limit the wage bill to 4.8 percent of GDP and provide for a domestically

financed investment outlay of 3.2 percent of GDP. The government has endorsed these decisions for expenditure reduction and notified the concerned ministries. Investment outlays include the purchase of an airplane for the presidency, an issue that has been discussed with Fund staff since 1998. The government will consult with the Fund staff before finalizing any transaction and will finance the purchase only from external resources that meet the concessionality conditions agreed in the program (loans with a grant element of at least 35 percent) and from appropriations already included in the Finance Law. The government also intends to pay CFAF 3.3 billion in wage arrears, which will be financed by a part of the allocations provided under the restructuring funds.

21. With regard to public finance management, the government plans to implement a package of measures to improve revenue collection and to avoid the problems encountered in 2001. It also intends to continue its efforts to strengthen the tax and customs administration. Furthermore, the government has drawn up an action plan to improve the performance of customs, relying particularly on the measures agreed with the preshipment inspection company. In particular, the government plans to (i) pursue the strengthening of the tax unit in charge of large enterprises; (ii) complete the computerization plan at the customs department and the computer link between the tax and customs departments; (iii) reduce customs fraud by strengthening the compulsory system for preshipment inspection and customs declaration, and strictly enforcing legal sanctions; (iv) intensify the monitoring of the valuation procedures at customs; and (v) intensify the monitoring of tax exemptions. In this context, the government has requested technical assistance from Fund staff. Moreover, the government will adopt, by the end of August 2002, an action plan to recover customs duty arrears amounting to CFAF 2.1 billion owed by the company distributing petroleum products, SONACOP, as well as CFAF 1.2 billion in dividends owed to the state for the first six months of 1999, prior to the privatization of SONACOP.

22. As regards expenditure, the social pressures felt since the beginning of the year have led the government to make payments of wage increase to the level corresponding to the grades that civil servants reached in 2000, in addition to paying the wage increases resulting from the application of grades reached in 1998. In this context, the government, in consultation with Fund staff, has reviewed its assessment of the wage bill and recruitment for the period of 2002-04 and reconfirmed its intention to pursue its effort to implement the civil service reform. This program limits the wage bill in 2003 and 2004 to 4.8 and 4.6 percent of GDP, respectively.

23. With regard to expenditure management, the government, with the assistance of the World Bank in the context of the public expenditure reform adjustment credit (PERAC), intends to reinforce measures taken in recent years to improve expenditure execution. In this context, the government intends before end-October 2002 to finalize and reconcile the account balances of the treasury and the budget departments for fiscal-year 2001. Moreover, in 2002, the government will ensure that budget procedures are strictly observed, so as to limit the proportion of expenditure that does not follow the regular commitment and payment order procedures. In this regard, the government intends to complete an assessment of the system of cash advance accounts (*comptes de régisseurs*) in consultation with Fund staff

before the end of September 2002, with a view to significantly reducing their number by January 1, 2003. In addition, the remaining balance of those cash advance accounts as at the end of December 2002 will be compulsorily transferred back to the treasury, and expenditure already committed will be cancelled. Moreover, during 2002, the government will implement measures aiming to (i) deepen the budget reforms; (ii) make SIGFIP fully effective, with a view to channeling all expenditures through this system, including external debt and foreign-financed investment outlays; (iii) strengthen the financial and physical controls of investment outlays; and (iv) make more systematic use of autonomous agencies to execute such outlays. The government will also pursue its ongoing efforts to prepare economic and functional classifications of government expenditure. The steady expansion of the program budget approach will also facilitate the distinction between current and capital expenditures.

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

24. Monetary policy, which is conducted at the regional level by the BCEAO, will aim at achieving the objectives of preserving the exchange rate arrangement under the currency union and maintaining an adequate level of foreign exchange reserves. The government intends to support the efforts of the regional banking commission to improve the health of the Beninese financial system, so that it can play an active role in the process of development. In this context, it will ensure the implementation of the banking commission recommendations to improve the financial viability of the remaining state-controlled bank, and it will submit to the banking commission before end-July 2002 a recovery plan for the bank, with a timetable for selling the government's shares. In addition, it will encourage all the financial institutions to observe the current banking regulations and prudential ratios, especially those related to capital adequacy.

C. Other Structural Reforms

25. The government will pursue the reform of the cotton sector. This reform is supported by the World Bank in the context of the Cotton Sector Reform Project. This project aims at developing a strategy for increasing the efficiency of the sector and the income of producers. In 2002, as part of its poverty reduction strategy, the government will undertake an analysis of the impact of past and future reforms of the cotton sector on poverty.

26. The government has granted cotton producers a price subsidy for the 2001/02 crop year. Government financial intervention is, nevertheless, exceptional and does not call into question the free determination by the private sector alone of seed cotton prices. Based on current world prices, the government does not intend to grant a producer price subsidy in the course of the next crop year (2002/03). In the event of major changes to world prices, the government will consult with Fund and World Bank staff to discuss the actions that it would consider necessary to take. In addition, a price-setting mechanism that reflects the trend of world prices will be established before end-September 2002. The government will, by conducting an exhaustive verification of the financial terms of cotton fiber sales, make certain that the producer price subsidy paid in 2001/02 does not create a windfall profit for

the ginning mills. A mechanism for reimbursement will be established if gains are made on the sales at a price in excess of the reference price.

27. With regard to the privatization of SONAPRA, the privatization strategy timetable that was to be drawn up before December 2001 has been delayed. The government adopted in May 2002 a strategy for privatizing separately each ginning mill; bidding will be launched at the latest by the end of July 2002, and the choice of the new owners made by November 2002 at the latest. The entire proceeds of the privatization will be transferred to the treasury.

28. The liberalization of cement imports and prices will be made effective by August 1, 2002, after the finalization of appropriate procedures by a regulatory body. With regard to the electricity sector, the government will take the necessary steps to ensure the financial viability of the SBEE. In particular, the government decided to raise electricity prices by CFAF 14 per kilowatt-hours, with effect from June 1, 2002, to pass through the price increase effected in April 2002 by its supplier, the Communauté Electrique du Bénin (CEB), from CFAF 38 to CFAF 52 per kilowatt-hours. In addition, a plan to restore the enterprise's financial viability will be adopted by end-September 2002, and an audit of its accounts will be completed by December 2002.

29. The authorities intend to accelerate the pace of the public sector divestiture program. The bidding for the telecommunications company will be launched at the latest by end-April 2003, and the government will choose the winning bidder by July 2003 at the latest. Concerning electricity, the government intends to establish a regulatory body in November 2002, to proceed with the launch of the bidding for the management contract by the end of March 2003, and to choose the new owner in May 2003 at the latest. For the PAC, the government has received the conclusions of the study that will help it to choose an option for the participation of the private sector in the management of the port by the end of August 2002 at the latest. It intends to launch a bidding for a feasibility study for the implementation of the option that will have been selected. The private sector will become involved in the management of the port in December 2003 at the latest, following the launch of the bidding during the second quarter of 2003.

30. The government reiterates its desire to implement the reform of the civil service as soon as possible; to this end, it has called on the National Assembly to vote quickly on the amendment of the law on the compensation system. Moreover, the payroll unit of the Ministry of Finance will operate using the merged database maintained at the Ministry in Charge of the Civil Service, starting in July 2002. In parallel, the government has decided to implement from January 2003 onward a policy of recruitment based on fixed-term contracts to replace civil servants entering retirement.

31. The Civil Service Pension Fund (FNRB) has a structural financial deficit, which is currently covered by budget subsidy, that amounts to CFAF 9.6 billion in 2002. The government will establish a database of retired personnel in September 2002 and will carry out an actuarial study of the fund, which will have to be completed before end-January 2003.

This study will help the government to formulate a strategy by end-April 2003 to eliminate the FNRB's financial deficit and to ensure its viability over the medium term.

32. With regard to governance, the government intends to implement effectively the national strategic plan for combating corruption, notably by strengthening the institutions set up for this effect. Concerning the case of SONACOP, in addition to the collection of customs duties and dividends in arrears (see para. 21), the government will pursue the legal actions taken to protect the state's interests.

V. Monitoring of the Program and Performance Criteria and Benchmarks

33. To ensure a successful implementation of the program, the government has already taken the following measures as prior actions for approval of the arrangement: (i) finalization of an action plan to strengthen customs administration; (ii) a decision by the Council of Ministers to limit budget appropriations in accordance with the TOFE *(tableau des opérations financières de l'Etat)* for 2002 agreed with Fund staff, and a notification of the corresponding cuts in budgetary allocations to the relevant ministries; (iii) an increase in the electricity tariff by the SBEE; and (iv) a notification to Fund staff that, based on current world prices, the government does not intend to grant a producer price subsidy during the 2002/03 crop year.

34. Program monitoring will be carried out on the basis of the technical memorandum of understanding accompanying this memorandum (Appendix I, Annex II), and of the quarterly quantitative criteria and benchmarks, indicators, and structural benchmarks established for the period March 1, 2002-June 30, 2003 (tables 1 and 2), as well as through a midterm review. The quantitative limits for end-June 2002, end-December 2002, end-March 2003, and end-June 2003 are benchmarks for program monitoring; those for end-September 2002 are program performance criteria, the observance of which is a condition for making the fifth disbursement under the program. The quantitative benchmarks and the performance criteria include (i) a ceiling on net bank credit to the government; (ii) the nonaccumulation of new external payments arrears by the central government (on a continuous basis); (iii) a ceiling on new nonconcessional foreign or guaranteed debt with a maturity of one year or more contracted or guaranteed by the central government; and (iv) a ceiling on new short-term external debt, except for regular trade financing. The quarterly ceilings on net domestic credit to the government will be adjusted downward (or upward) by the amount by which exceptional external assistance, excluding any debt relief, exceeds (or falls short of) program estimates, as indicated in Table 2 of this annex. The wage bill and health and education expenditure are also quantitative benchmarks. The reduction of domestic payments arrears has not been retained as a quantitative benchmark or a performance criterion because the government has settled outstanding amounts except for those still subject to dispute proceedings.

35. Four measures will serve as structural benchmarks:

- for end-July 2002, the adoption of a recovery plan for the state-controlled bank in conformity with the recommendations of the banking commission (the plan will include a timetable for selling the state's shares);
- for end-August 2002, the adoption of an action plan for the collection of customs duties in arrears and accrued dividends from the company distributing petroleum products, SONACOP;
- for end-September 2002, the adoption of a plan to eliminate the financial deficit of the electricity company (SBEE); and
- for end-September 2002, the finalization in consultation with Fund staff of an evaluation of the operations of the cash advance accounts (*comptes de régisseurs*), including an action plan to reduce their number, as well as the decision to implement this plan by January 1, 2003.

Table 1. Benin: Prior Actions and Structural Benchmarks for the 2002 Program

	Measures	Timetable
Prior actions:		
	Finalize an action plan to strengthen customs administration.	May 23, 2002
	Decide in the Council of Ministers on the limit for budget appropriations in accordance with the TOFE (*tableau des opérations financières de l'Etat)* for 2002 agreed with Fund staff.	May 23, 2002
	Notify the relevant ministries of the corresponding cuts in budgetary allocations.	June 15, 2002
	Increase the tariff by CFAF 14 cents per kilowatt-hours of the electricity company (SBEE).	June 1, 2002
	Notify Fund staff that, based on current world prices, the government does not intend to grant a producer price subsidy.	May 22, 2002
Structural benchmarks:		
	Adopt a recovery plan for the state-controlled bank in conformity with the recommendations of the banking commission, including the timetable for selling the state's shares.	End-July 2002
	Adopt a plan to eliminate the financial deficit of the SBEE.	End-September 2002
	Adopt an action plan for the collection of customs duties in arrears and accrued dividends from the company distributing petroleum products, SONACOP.	End-August 2002
	Finalize, in consultation with Fund staff, an evaluation of the operations of the cash advance accounts (*comptes de régisseurs*) including an action plan to reduce their number, as well as the decision to implement this plan by January 1, 2003.	End-September 2002

Table 2. Benin: Financial and Structural Benchmarks and Performance Criteria Under the 2002/03 Program

(In millions of CFA Franc, unless otherwise indicated)

	2002				2003	
	End-March Est.	End-June 1/	End-September 2/	End-December 1/	End-March 1/	End-June 1/
Quantitative financial benchmarks						
Net bank credit to the government 2/ 3/	-64.0	-63.1	-52.1	-51.3	-50.8	-48.3
Nonaccumulation of new external payments arrears by the central government (cumulative since end-September 2001) 2/ 4/	0.0	0.0	0.0	0.0	0.0	0.0
New nonconcessional external debt with a maturity of one year or more contracted or guaranteed by the central government 2/ 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt with a maturity of less than one year (stock) 2/ 6/	0.0	0.0	0.0	0.0	0.0	0.0
Wage bill (cumulative since end-December 2001) 1/	18.5	42.0	64.2	89.5	112.5	136.8
Health expenditure (cumulative since end-December 2001) 1/ 7/	2.6	13.3	22.7	32.7	39.5	50.0
Education expenditure (cumulative since end-December 2001) 1/ 7/	10.4	29.4	50.2	72.5	83.8	115.7
Memorandum items (cumulative amount since end-December 2001)						
Total government revenue 8/	70.8	140.7	217.8	310.3	388.6	465.8
Primary government expenditure 9/	48.7	121.0	208.0	298.7	370.7	444.7
Non-project-related external assistance, excluding debt relief	0	5.4	7.3	18.2	18.2	18.2
Target for spending on projects financed by HIPC Initiative	---	8.0	11.9	15.9	20.9	25.9

1/ Benchmarks.
2/ Performance criteria, excluding health and education expenditure and the wage bill.
3/ Program targets will be adjusted downward (upward) by the amount by which disbursements on non-project-related external assistance, excluding debt relief, exceed (fall short of) the amount programmed; the required correction in case of shortfall of external assistance will be limited to CFAF 4 billion at the end of June 2002, CFAF 10 billion at the end of September 2002, and CFAF 15 billion at the end of December 2002. Program targets will also be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed for restructuring expenditure and by the amounts of newly issued treasury bonds held outside the banking sector. They will also be adjusted downward by the amount of undespending on projects financed by the HIPC Initiative.
4/ Excluding arrears on debt service to non-Paris Club creditors for which the authorities are making best efforts to reach agreement on terms at least comparable to those granted by the 1996 Paris Club agreement.
5/ This performance criterion applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received; it excludes loans contracted for debt rescheduling. The concessionality on the external debt is defined in the Fund's revised guidelines, approved on October 21, 1995, and is computed in compliance with the implementing guidelines of April 15, 1996.
6/ The term "debt" has the meaning set forth in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) , 8/24/00); it excludes normal trade financing.
7/ Total expenditures.
8/ Excluding grants.
9/ Total government expenditure minus interest payments, externally financed investment expenditure, and net lending.

INTERNATIONAL MONETARY FUND

BENIN

Technical Memorandum of Understanding

(June 27, 2002)

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes.

I. Definitions

2. Unless otherwise indicated, the government is defined as the central government of the Republic of Benin and does not include local authorities, the central bank, or any other public entity with autonomous legal personality that is not included in the table of government financial operations (TOFE).

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

- As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), debt is understood to mean a current, that is, not contingent liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under this definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

I. Quantitative Performance Criteria

A. Net Bank Credit to the Government

Definition

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

5. At end-December 2001, net bank credit to the government as defined above stood at CFAF –60.1 billion.

6. The ceilings on the net credit to the government vis-à-vis the banking system will be adjusted downward (upward) by the amount by which disbursements on budgetary assistance exceed (fall short of) the amount programmed; the required correction in case of shortfall of budgetary assistance will be limited to CFAF 4 billion at end-June 2002, CFAF 10 billion at end-September 2002, and CFAF 15 billion at end-December 2002. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative)). In the context of the program, cumulative (since end-December 2001) external budgetary assistance is expected to reach CFAF 5.4 billion at end-June 2002, CFAF 12.7 billion at

end-September 2002, CFAF 18.2 billion at-end December 2002, and to remain at that level through end-June 2003.

7. The ceiling on net bank credit to the government will be adjusted downward by the amount by which proceeds from privatization exceed the amount programmed for restructuring expenditure and the amount of newly issued treasury bonds held by the nonbanking sector. In the context of the program, cumulative restructuring expenditure (since end-December 2001) is expected to reach CFAF 4 billion at end-June 2002, CFAF 8 billion at end-September 2002, CFAF 10 billion at end-December 2002, CFAF 11.8 billion at end-March 2003, and CFAF 13.8 billion at end-June 2003.

8. The ceiling on net bank credit to the government will also be adjusted downward by the amount of underspending on projects financed by HIPC Initiative resources. Targets for cumulative spending on projects financed by the HIPC Initiative (since end-December 2001) are CFAF 8 billion at end-June 2002, CFAF 11.9 billion at end-September 2002, CFAF 15.9 billion at end-December 2002, CFAF 20.9 billion at end-March 2003, and CFAF 25.9 billion at end-June 2003.

Performance criteria and benchmarks

9. The ceiling on net credit to the government is established as follows: CFAF -63.1 billion as at end-June 2002, CFAF -52.1 billion at end-September 2002, CFAF -51.3 billion at end-December 2002, CFAF -50.8 billion at end-March 2003, and CFAF -48.3 billion at end-December 2003. The ceiling is a performance criterion as at end-September 2002, and a benchmark as at end-June 2002, end-December 2002, end-March 2003, and end-June 2003.

Reporting deadline

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

B. Nonaccumulation of External Public Payments Arrears

Definition

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

Performance criterion

12. Under the program, the government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The

performance criterion on the nonaccumulation of external payments arrears will be monitored on a continuous basis throughout the program period.

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

Definitions

13. This performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), but also to commitments contracted or guaranteed (including lease-purchase agreement) for which no value has yet been received. The definition of external debt excludes bonds issued in the regional market and disbursements under the PRGF arrangement.

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

Performance criterion

15. Nonconcessional external borrowing will be zero throughout the 2002-03 program.

Reporting deadline

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

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

Definition

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

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

Performance criterion

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

20. As of December 31, 2001, the government of Benin has no short-term external debt.

II. QUANTITATIVE BENCHMARKS

21. The quantitative benchmarks for the program comprise quarterly minimum spending targets for health and education. These include both current capital and expenditures, including foreign-financed investments. The floor for health expenditure is on an accumulated basis (since end-December 2001) CFAF 13.3 billion for end-June 2002, CFAF 22.7 billion for end-September 2002, CFAF 32.7 billion for end-December 2002, CFAF 39.5 billion for end-March 2003, and CFAF 50.0 billion for end-June 2003. The floor for education expenditure is on an accumulated basis (since end-December 2001) CFAF 29.4 billion for end-June 2002, CFAF 50.2 billion for end-September 2002, CFAF 72.5 billion for end-December 2002, CFAF 83.8 billion for end-March 2003, and CFAF 115.7 billion for end-June 2003.

22. The quantitative benchmarks for the program also comprise the civil service wage bill. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security forces, and it includes all similar expenditure with respect to special contracts and other permanent or temporary employment with the government. The wage bill excludes, however, wages paid under externally funded projects and transfers to local communities for the payment of salaries of teachers and health personnel.

23. The quantitative performance indicators for the wage bill are set at CFAF 42.0 billion at end-June 2002; CFAF 64.2 billion at end-September 2002, CFAF 89.5 billion at end-December 2002, CFAF 112.5 billion at end-March 2003, and CFAF 136.8 billion at end-December 2003 (cumulative since end-December 2001).

24. The government shall report each month's wage bill to IMF staff, in the context of the TOFE, before the end of the following month.

III. QUANTITATIVE INDICATORS

25. The program also includes indicators on total government revenues and the primary government expenditure.

A. Floor for Total Government Revenues

Definition

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

Indicators

27. Quantitative performance indicators for total government revenues are set at CFAF 140.7 billion at end-June 2002, CFAF 217.8 billion at end-September 2002, CFAF 310.3 at end-December 2002, CFAF 388.6 billion at end-March 2003, and CFAF 465.8 at end-June 2003 (cumulative since end-December 2001).

Reporting deadline

28. The government shall report its revenues to IMF staff each month in the context of the TOFE and before the end of the following month.

B. Floor for Primary Government Expenditure

Definition

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

Indicators

30. The floors for the performance indicators for primary government expenditure are set at CFAF 121 billion at end-June 2001, CFAF 208.0 billion at end-September 2002, CFAF 298.7 billion at end-December 2002, CFAF 370.7 billion at end-March 2003, and CFAF 444.7 billion at end-June 2003 (cumulative since end-December 2001).

Reporting deadline

31. The authorities will report to IMF staff, in the context of the TOFE, monthly data on primary government expenditure. Data for each month will be provided no later than six weeks after the end of that month.

IV. Structural Benchmarks

32. The following four measures will serve as structural benchmarks:

- By July 31, 2002, the government will adopt a recovery plan for the state-controlled bank in conformity with the recommendations of the banking commission; the plan will include the timetable for selling the state's shares.
- By August 31, 2002, the government will adopt an action plan for the collection of customs duties in arrears and accrued dividends from the company distributing petroleum products, SONACOP.
- By September 30, 2002, the government will adopt a plan to eliminate the financial deficit of the electricity company (SBEE).

- By September 30, 2002, the government will finalize, in consultation with Fund staff, an evaluation of the operations of the cash advance accounts (*comptes de régisseurs*), including an action plan to reduce their number, as well as the decision to implement this plan by January 1, 2003.

V. Other Data Requirements for Program Monitoring

A. Public Finance

33. The government will provide to the Fund the following:

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

B. Monetary Sector

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

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

C. External Sector

35. External sector data requirements are as follows:

- Export and import data, including volumes and prices, will be transmitted on a quarterly basis within 12 weeks of the end of each quarter.

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

D. Real Sector

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

- Monthly disaggregated consumer price indices will be transmitted on a monthly basis within two weeks of the end of each month.
- Any revisions to the national accounts data will be transmitted within eight weeks of the date of revision.

E. Structural Reforms and Other Data Requirements

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

Benin: Relations with the Fund

(As of April 30, 2002)

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

II. **General Resources Account**:	**SDR million**	**% of quota**
Quota	61.90	100.0
Fund holdings of currency	59.72	96.48
Reserve position in the Fund	2.19	3.53

III. **SDR Department**:	**SDR million**	**% allocation**
Net cumulative allocation	9.41	100.0
Holdings	0.24	2.59

IV. **Outstanding Purchases and Loans**:	**SDR million**	**% quota**
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction Growth Facility (PRGF) Arrangements	57.30	92.56

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	07/17/2000	07/16/2003	27.00	14.88
ESAF/PRGF	08/28/1996	07/16/2000	27.18	16.31
ESAF	01/25/1993	05/21/1996	51.89	51.89

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

	Forthcoming				
	2002	2003	2004	2005	2006
Principal	7.50	11.40	8.50	6.00	5.90
Charges/interest	0.40	0.40	0.40	0.30	0.30
Total	7.90	11.80	8.90	6.30	6.20

VII. Implementation of HIPC Initiative:

Commitment of HIPC assistance	Enhanced Framework
Decision point date	Jul 17, 2000
Assistance committed (NPV terms)	End-1998
Total Assistance (US$ Million)	265.00
Of which: Fund assistance (SDR Million)	18.40
Completion point date	Floating

Delivery of Fund assistance (SDR million)

Amount disbursed	7.38
Interim assistance	7.38
Completion point	0.00
Amount applied against member's obligations (cumulative)	6.81

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Benin is a member, is subject to a full safeguards assessment. An off-site safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in the financial reporting framework and recommended an on-site assessment. An on-site safeguards assessment of the BCEAO was completed on March 5, 2002. BCEAO authorities and Fund staff have reached an understanding regarding the implementation of key recommendations related to financial reporting and internal control.

IX. Exchange Arrangement:

Benin is a member of the West African Monetary Union (WAMU). The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of EUR 1 = CFAF 655.957. At the end of March 2002, the rate of the CFA franc in terms of the SDR was SDR 1= CFAF 937.55.

X. Article IV Consultations:

Benin is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Cotonou during October 5-19, 2000. The staff report (EBS/00/288; 12/27/00) was discussed by the Executive Board on January 8, 2001.

XI. ROSC Assessment:

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be urgently taken to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (SM/02/171).

XII. Technical Assistance:

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

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

XIII. Resident Representative:

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

Benin: Relations with the World Bank Group

(As of May 31, 2002)

Background and strategic focus of the World Bank Group assistance to Benin

1. Since becoming a member of the World Bank Group in 1963, Benin has benefited from 59 IDA credits amounting to US$716.2 million, of which US$608.8 million has been disbursed. IDA credits have financed projects in agriculture (cotton and food crops), health, transport, water supply, power, education, and private enterprise development. Benin has received three technical assistance credits, providing support to the private sector, as well as to the agriculture and education sectors, and has benefited from three structural adjustment credits. The third structural adjustment credit (SAL III) of US$40 million equivalent presented to the Board of Directors in May 1995 and closed in January 1999, provided support for deepening structural reforms and implementing accompanying measures that permitted Benin to benefit from an increase in competitiveness following the CFA franc external parity realignment. It also aimed at promoting the supply response to these measures by removing remaining structural rigidities in the incentives framework, in order to expand private sector activities.

2. The World Bank long-term strategy focuses on strengthening the government's capacity to carry out its own development and poverty reduction programs. It will be articulated around the related pillars of enhanced analytical and advisory activities as input into the formulation and monitoring of the government's poverty reduction strategy and consolidated programmatic lending to finance this strategy. Since March 2001, the World Bank is implementing an Interim Country Assistance Strategy (I-CAS), which sets out a transitional phase towards this long-term vision. The I-CAS aims at laying the groundwork for moving progressively towards consolidated programmatic lending. Key components of the I-CAS are financial and technical assistance to the multisectoral budget management reform, supporting further liberalization of the cotton sector, and assisting the government in the preparation of a comprehensive poverty reduction strategy. A new full CAS will be based on the PRSP and is scheduled for Board approval in December 2002.

Structural areas covered by World Bank lending and conditionality

3. A public expenditure reform adjustment credit (PERAC) was approved in March 2001. This credit aims to support the shift from input-based management to a modern concept of public administration based on achieving results. While addressing major deficiencies in the existing budget management system, the reform focuses on two fundamental changes: (i) a delegation of spending authority from the Finance Ministry to line ministries; and (ii) a move toward performance-based budgeting through well-defined program budgets. Key actions that are supported by the PERAC in 2001 and benchmarks for subsequent adjustment credits are (i) formulation of a medium-term expenditure framework for 2002-04, based on the PRSP; (ii) strengthening of the formulation of sectoral spending strategies in five ministries; (iii) presentation of a 2002 budget to the National Assembly that is strongly oriented toward growth and poverty reduction; (iv) monitoring of the execution of

the 2001 budget on a semiannual basis; (v) observance of performance criteria with respect to public procurement; and (vi) completion by the Chamber of Accounts of a performance audit for the 2000 budget.

4. A Poverty Reduction Support Credit (PRSC) is scheduled for early FY03. This credit will support policies laid out in the forthcoming PRSP, provided it convincingly makes the case for additional expenditures to reduce poverty, and implementation of key structural reforms is satisfactory. Triggers for a PRSC include: completion of a satisfactory PRSP; progress in implementing the cotton sector reform program; tangible progress in the privatization of public enterprises[1] and in setting up appropriate regulatory frameworks in privatized sectors; and improved execution rates for development expenditure. The bank is also assisting the authorities in the cotton sector, for which it has approved a sectoral credit in January 2002 and has agreed in principle to provide, through a supplement to the PERAC, part of the financing for the subsidy to maintain the producer price for cotton in the context of a sharp drop in the world cotton price.

5. In addition to the cotton sector credit an HIV/AIDS credit under the MAP umbrella was approved by the Board in January 2002. For both credits, effectiveness is still pending.

6. The World Bank is increasingly moving toward ex-post assessments of progress, and toward modulating its financial support to the pace of reform implementation. Consistent with the need for satisfactory sectoral strategies to underpin its investment lending, World Bank approval of proposed power projects requires agreement on the privatization of the management of the electricity utility.[1]

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

8. Other relevant structural conditions not included in current program are the privatization of public enterprises[2] outside the cotton and electricity sectors is an area of macroeconomic relevance, particularly for boosting growth, and is not covered by any ex-ante conditionality.

Responsible staff member in the World Bank

9. Ms. Antoinette Sayeh, Country Director for Benin, Niger, and Togo, (202) 473-4719.

---

[1] Privatization of the management of a public enterprise means that it would be managed by a private entity under a management contract.

[2] Privatization of a public enterprise involves the sale of its assets.

Benin: Relations with the World Bank Group

(In millions of U.S. dollars, as of March 31, 2002) 1/

	Effectiveness Date	Original Principal 2/ (IDA)	Disbursed (IDA)
Fully disbursed loans and credits	...	554.0	539.9
All disbursing credits	...	162.2	68.9
Population and health	7/17/96	27.8	20.4
Borgou pilot	3/18/99	4.0	3.5
PERAC	9/1/01	10.0	10.0
Decentralization City Management 1	3/28/00	25.5	9.5
Social fund	4/12/99	16.7	11.5
Distance learning project	11/22/00	1.8	1.0
Labor force development project	3/13/01	5.0	0.7
Private sector	8/31/00	30.4	12.3
Cotton sector reform project	...	18.0	0.0
HIV/AIDS multi sector	...	23.0	0.0
Grand total for all credits	...	716.2	608.8

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

1/ Credits denominated in SDRs are shown in U.S. dollar equivalents based on the monthly exchange rate. in effect at the time of negotiations.
2/ Original amounts net of cancellations.

Benin: Statistical Issues

(As of June 10, 2002)

1. The Beninese authorities have generally provided the core statistical indicators to the Fund (see attached table) on a timely basis. However, there are weaknesses in the areas of national accounts, public finance, monetary statistics, and balance of payments. In January 2001 the authorities adopted the General Data Dissemination System (GDDS) as the framework for the development of Benin's national statistical system. Sectoral metadata were posted on the Dissemination Standards Bulletin Board in September 2001. As a follow-up to GDDS participation, technical assistance is being offered to the eight West African Economic and Monetary (WAEMU) countries to assist them in implementing the their plans for improvement. A Fund Regional Advisor has initiated a program of assistance with government finance statistics, for an initial six months assignment, starting April 2002. A second program concerning real sector statistics, for an initial six months, commenced in May 2002. This latter program is being undertaken in collaboration with AFRISTAT, and with funding by the Japanese Government. Benin has accepted the offer of assistance for real sector statistics, but has yet to respond in respect of the program for government finance statistics.

Real sector

2. Beninese national statistics agencies were represented at two GDDS seminars, one in Yaoundé in October 1998 and another in Bamako in April 2001. As a follow-up to the GDDS workshop in Bamako, significant initiatives are expected in order to upgrade the national accounts system in Benin. National accounts follow the *1968 SNA*. Benin participates in a regional harmonization process of statistical methodologies under the multilateral surveillance of the West African Economic and Monetary Union (WAEMU) aiming at the improvement of its national accounts.

3. Starting with January 1998, Benin is using a new consumer price index (CPI) in compliance with the standard of the WAEMU. A household budget survey is being undertaken by INSAE with technical assistance provided by the French Institute of Statistics (INSEE). It is expected that the results of the survey will be used to update the expenditure weights in the CPI and therefore reflect the effects of the devaluation of the CFA franc on the structure of private consumption, as well as the shift in the consumption pattern from imports to domestic goods. An index of industrial production is not compiled.

Public finances

4. Monthly government finance statistics are compiled by the Ministry of Finance based on information provided by the budget, customs, tax, and treasury directorates; these data are available with a one- to three-month lag. The Ministry of Finance prepares a monthly table reconciling data on spending commitments by the budget directorate and payments by the treasury. However, no final budget or treasury accounts are published at the end of the fiscal

year. Benin does not report monthly data for publication in *International Financial Statistics (IFS)* or annual data for publication in the *Government Finance Statistics Yearbook (GFSY)*.

Monetary accounts

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

6. The BCEAO has experienced difficulties in estimating currency in circulation for the individual countries, partly because of delays in processing cash in its vaults. Currency notes held in the vault are subtracted from currency in circulation, even though the former contains a large proportion of notes from other WAEMU countries. As notes are sorted out, currency in circulation and Benin's contribution to foreign assets of the BCEAO are revised upward. A money and banking statistics mission visited BCEAO in August 1997 and made recommendations that would contribute to reducing the delay. Hence, during 1999, the BCEAO accelerated the sorting out of currency notes, which resulted in a sharp increase in both currency in circulation and the central bank's foreign assets.

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

Balance of payments

8. The BCEAO is responsible for compiling and disseminating the balance of payments statement and has made significant improvements over the past few years in order to enhance data consistency. Technical assistance provided to the BCEAO by STA in balance of payments statistics (through the assignment of statistical advisor from July 1996 through July 1999) has contributed to the improved reporting of balance of payments data in the framework of the *Balance of Payments Manual* (fifth edition) since 1996.

9. Regarding trade data, the customs computer system (SYDONIA[1]) was upgraded in 1999, and its installation in all main border customs houses is being completed; this should

---

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

allow for a better monitoring of import data and should improve the coverage of informal trade, especially with Nigeria.

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

11. Concerning the financial account, the foreign assets of the private nonbanking sector are still not well covered, especially the assets of WAEMU residents, which are obtained through Bank for International Settlements (BIS) data. The organization of an annual, exhaustive survey for the reporting of foreign direct investment transactions in Benin is still in a very preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources in order to improve the quality of the balance of payment reports: the regional stock exchange transactions, and the firms' balance sheet database (*Centrale des bilans*). They have also indicated that quarterly data derived from banking settlement reports are soon to be used to assess the existing information.

Benin: Core Statistical Indicators
(As of June 10, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest Observation	Current	01/02	02/02	02/02	02/02	04/02	02/02	06/01	10/00	10/00	2000	1999
Date received	Current	5/23/02	5/23/02	5/18/02	5/23/02	5/08/02	04/08/02	10/0001/02	10/00	05/01	10/01	10/00
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Quarterly	Annually	Annually
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Quarterly	Annually	Annually
Source of update 1/	EIS/TRE	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Finance	Ministry of Planning	BCEAO	Ministry of Finance	Ministry of Finance	CAA
Mode of reporting	Staff	e-mail	e-mail	e-mail	e-mail	e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	No	No	2/	2/	2/	2/	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	Annually

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

2/ Preliminary data for staff use only; actual data unrestricted.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/79
FOR IMMEDIATE RELEASE
August 5, 2002

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

IMF Concludes 2002 Article IV Consultation with Benin

On July 15, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Benin.[1]

Background

Since 1994, Benin has been implementing reforms supported by the Fund through successive Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction Growth Facility (PRGF) arrangements. The current arrangement was approved in July 2000 in support of a program covering the period 2000–03. At that time, the Executive Board agreed that Benin had reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (see Press Release No. 00/43).

Macroeconomic performance has remained satisfactory under the current PRGF arrangement. In 2001, real GDP is estimated to have increased by 5 percent, driven by strong growth in the construction, public works, services, and industrial sectors. End-of-period inflation decelerated from 9.8 percent in 2000 to 2.3 percent in 2001. The external current account deficit, excluding current official transfers, declined from 8.0 percent in 2000 to 6.7 percent of GDP in 2001, owing to more favorable terms of trade. The real effective exchange rate appreciated somewhat as a result of a slightly higher inflation rate than that of Benin's trading partners and a small decline

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

of the U.S. dollar against the euro, to which the CFA franc is pegged. The sharp decrease in the world price of cotton during the second half of 2001 had limited effect on Benin's economy in 2001 because exports in the major cotton sector had been realized in the first half of the year.

In 2001, total revenue reached 16.2 percent of GDP (from 16.6 percent in 2000), despite the adverse effect on customs of the tightening of controls by Nigeria on the border with Benin and some weaknesses in customs administration. Total expenditure was kept at 20.3 percent of GDP, as the authorities contained nonwage current expenditure below budgetary allocations. Priority outlays for education and health rose at a higher pace than other outlays. The overall fiscal deficit, on a payment order basis and excluding grants, was held to the program target at 4.2 percent of GDP.

Monetary policy, conducted at the regional level by the Central Bank for West African States, was prudent. Monetary expansion abated (broad money grew by 12.7 percent in 2001, compared to 21.2 percent in 2000), while the banking system's net foreign assets improved significantly, reflecting (i) intensified efforts to repatriate export proceeds previously held abroad; (ii) the conversion into CFA francs of French francs held outside the banking system prior to the transition to the euro; and (iii) an increase in foreign assistance to the government. Domestic credit declined by 26.6 percent as a result of the buildup of government deposits. At the same time, credit to the nongovernmental sector stagnated, as some ginning enterprises benefited from increased prefinancing credit from their foreign customers.

On the structural front, further key reforms were implemented in the cotton sector, and there was some progress in the divestiture of public utilities. However, the adoption of a strategy to privatize the public enterprise in the cotton sector (SONAPRA) encountered delay. Furthermore, the reform of the civil service stalled.

Prospects for 2002

For 2002, the authorities have projected lower real GDP growth (5.3 percent) than estimated previously (6.0 percent) in view of the global economic downturn and the sharp decrease in the world price of cotton. Annual average inflation is targeted to be contained at 3.3 percent. The external current account deficit is expected to widen to 8.3 percent of GDP as exports earnings and current transfers are projected to decrease.

Executive Board Assessment

Directors agreed with the thrust of the staff appraisal. They commended the authorities for the sound macroeconomic performance achieved in 2001, noting Benin's strong output growth, low inflation, and prudent budget policy—and more broadly, its observance of the targets under the Convergence, Stability, Growth, and Solidarity Pact of the West African Economic and Monetary Union. Directors observed, however, that progress on the structural front has been uneven, while fiscal policy weakened in the first half of 2002, reflecting an unplanned wage increase for civil servants and subsidies to cotton producers in the context of a weak world price.

Directors emphasized the importance of maintaining sound fiscal policy and accelerating the pace of structural reforms in order to increase the potential growth of the economy and reduce poverty. Such policies are also necessary in the context of Benin's monetary and exchange arrangements—and in light of the risks to which the economy remains exposed.

Directors therefore welcomed the authorities' decision to adopt measures to address the fiscal deficit in 2002. They stressed the need to strengthen tax administration, broaden the tax base, and control more effectively spending in nonpriority areas, in order to make room for higher and better targeted expenditures on basic social services. In particular, Directors urged restraint in wage settlements and in any further extension of subsidies to the cotton industry. They underscored also the importance of prudent management of government borrowing in order to achieve a sustainable external debt path.

Directors emphasized that maintaining a sound fiscal position—as well as broadening the productive base and promoting private sector investment—requires stronger efforts to implement public sector reforms. They welcomed the authorities' commitment to divest the public utilities, beginning with the energy and telecommunications companies, and the cotton processing company, and noted the importance of carrying out the divestment program under transparent rules. Further action is also needed to complete a thorough review of the civil service pension fund, aimed at ensuring its viability, and implement the long-delayed reform of the civil service compensation system. In the area of governance, Directors encouraged the authorities to press ahead with efforts to enhance fiscal transparency, based on the recommendations of the Fiscal ROSC, and to implement the strategic plan for combating corruption.

Directors noted that poverty indicators have not improved significantly, despite high rates of growth and low inflation, and called for a closer look at the targeting of poverty programs, as well as more frequent social impact assessments. Most Directors referred also to the impact of subsidies in large cotton producing countries—which raised production and thus reduced world prices. Directors encouraged the authorities to press ahead strongly with efforts to diversify the economy, and to exercise continued vigilance in domestic policies to ensure that external competitiveness is maintained. A few Directors suggested a more proactive approach to diversification by promoting small-scale enterprises and microfinance. Directors looked forward to the completion of the PRSP, incorporating fully the views of civil society and the donor community.

Directors noted that the regional monetary and exchange arrangement of the BCEAO continues to serve Benin well. They welcomed the authorities' commitment to strengthen the financial position of the banking sector and to improve the health of the cooperative and mutual credit institutions. In this regard, Directors urged the authorities to adopt a recovery plan for the state-controlled bank, including a timetable for selling the government's share. They also stressed the need to ensure that the banks observe the regional banking commission's prudential ratios—in particular, those related to minimum capital requirements. Directors commended the authorities for their prompt support and leadership of regional efforts against money laundering and the financing of terrorism.

Directors encouraged the authorities to continue improving the quality, timeliness, and frequency of reporting of key data, notably on the national accounts and the balance of payments. They welcomed the fact that Benin has begun publishing its General Data Dissemination System metadata on the IMF's website.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Benin is also available.

Benin: Selected Economic Indicators, 1998- 2002

	1998	1999	2000	2001 Est.	2002 Proj.
		(Annual percentage change)			
Real GDP	4.6	4.7	5.8	5.0	5.3
GDP deflator	4.2	1.9	3.3	3.1	2.0
Consumer prices (annual average)	5.8	0.3	4.2	4.0	3.3
Real effective exchange rate 1/	7.6	-3.5	4.4	2.1	...
Terms of trade	5.9	-22.2	1.6	15.4	-15.2
		(In percent of GDP)			
Gross domestic investment	17.0	17.5	18.9	19.2	19.3
Gross domestic savings	6.6	4.8	6.0	6.5	6.8
Gross national savings	11.3	9.9	10.9	12.5	11.0
		(In millions of US$)			
Exports (f.o.b.)	239.2	222.8	188.5	210.3	206.7
Imports (f.o.b.)	450.6	473.7	446.5	466.6	479.4
Current account balance	-133.3	-180.8	-182.6	-159.2	-212.7
Gross official reserves	249.3	423.6	454.4	590.4	...
		(In percent of GDP)			
Current account balance	-5.8	-7.6	-8.0	-6.7	-8.3
Overall balance	-0.1	7.6	3.2	5.6	-0.7
External public debt (after debt relief)	57.6	55.0	57.8	58.5	40.4
Financial variables		(In percent of GDP)			
Total revenue	15.5	16.1	16.6	16.2	16.6
Primary expenditures 2/	10.8	12.0	13.7	14.8	16.0
Total expenditure	16.6	17.6	20.1	20.3	21.8
Overall fiscal balance, excluding grants	-1.1	-1.6	-3.5	-4.2	-5.2
Overall fiscal balance, including grants	2.1	1.9	-1.8	-1.5	-2.2
Change in broad money (in percent)	-2.7	35	21.2	12.7	7.6
Interest rate 3/	6.25	5.75	6.50	6.50	...

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

1/ (+) = appreciation.

2/ Current expenditures and budgetary contribution to investment.

3/ Central Bank rediscount, end of period.

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 02/68
FOR IMMEDIATE RELEASE
July 15, 2002

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

IMF Completes Benin's Third Review Under the PRGF, Extends Arrangement Period for One-Year, and Approves US$5 Million in Additional Interim HIPC Assistance

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Benin's performance under the three-year SDR 27 million (about US$36 million) Poverty Reduction and Growth Facility (PRGF) arrangement. This decision will entitle Benin to the release of SDR 4 million (about US$5.3 million), which will bring total disbursements under the program to SDR 19 million (about US$25 million) (see Press Release No. 00/43). In addition, the Executive Board approved an eight-month extension of the PRGF arrangement through March 31, 2004 to allow the country access to the disbursement of the final loan.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Benin was also granted SDR 3.7 million (about US$5 million) in additional interim assistance under the Heavily Indebted Poor Countries (HIPC) Initiative to cover debt service payments falling due to the Fund through June 30, 2003. Benin reached the decision point under the HIPC Initiative in July 2000 and is expected to reach the floating completion point by the end of 2002. The PRSP has been finalized and the authorities have met the completion point conditions.

After the Executive Board's discussion, Anne Krueger, First Deputy Managing Director and Acting Chair, stated:

"Benin's macroeconomic performance in 2001 continued to be strong. Real GDP growth was in line with program targets, inflation decelerated, and fiscal performance remained satisfactory. All the performance criteria under the PRGF-supported program for end-December 2001 were met; but progress on the structural front was uneven.

"The authorities' economic program for 2002 aims at maintaining strong output growth and reducing poverty, while maintaining macroeconomic stability. Real GDP growth is expected to pick up moderately. Fiscal policy will focus on containing the deficit following the expenditure overruns in the first half of the year that resulted from the decision to subsidize cotton producers during the 2001/02 crop season, and to grant an unplanned wage increase to civil servants. Meeting the fiscal target will require the determined implementation of the action plan to boost revenue collection, as well as a more effective control over spending on nonpriority outlays through the new expenditure management system.

"The full and timely implementation of the structural reform agenda is of critical importance to the efforts to accelerate growth, strengthen Benin's competitive position, and reduce poverty. The main priorities in the agenda are the timely divestiture of public utilities and the privatization of the state-owned cotton company (SONAPRA); a review of the civil service pension fund, aimed at ensuring its viability; and the implementation of the reform of the civil service compensation system—in order to reduce pressures to increase wages, and to improve civil service management. It will also be important to maintain a prudent public sector borrowing strategy and a sustainable debt path. In the banking sector, the authorities need to ensure that appropriate prudential ratios—in particular, those related to minimum capital requirements—are observed, and proceed with the sale of the government's share in the state-controlled bank.

"Progress in alleviating poverty has been slow, and the authorities are encouraged to shift public expenditure toward basic social services, and to improve the quality of social expenditure. Moreover, it is essential that the authorities finalize the preparation of the PRSP—taking into account the outcome of their broad consultations with civil society and the donor community—and meet the conditions for the completion point under the HIPC Initiative.

"Benin's economy remains vulnerable to external shocks because of the continued heavy dependence on cotton exports, and on trade with Nigeria. It will therefore continue to face risks, including those arising from the subsidy policies in its main trading partners that could impair the successful and timely implementation of its program. In the face of these challenges, the authorities will need to stand ready to strengthen their adjustment and reform efforts," Ms. Krueger said.