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AFRICAN DEVELOPMENT FUND

ECONOMIC AND FINANCIAL REFORM SUPPORT PROGRAMME (PAREF)

Country: BENIN
APPRAISAL REPORT

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Currency Equivalents
May 2012

Currency Unit	CFAF
UA 1	USD 1.55055
UA 1	EURO1.17341
UA 1	CFAF 769.707

Fiscal Year

1 January to 31 December

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
ANDF	National Lands Agency
ARMP	Public Procurement Regulatory Authority
BCEAO	Central Bank of West African States
CPIA	Country Policy Institutional Assessment
CSP	Country Strategy Paper
CSPEF	Economic and Financial Programmes Monitoring Unit
DNCMP	National Directorate of Public Procurement Control
ECF	Extended Credit Facility
EU	European Union
FNPEEJ	National Enterprise and Self-Employment Promotion Fund
GPRS	Growth and Poverty Reduction Strategy
GUFE	One-Stop Shop for Business Registration Formalities
IMF	International Monetary Fund
JBS	Joint Budget Support
MTEF	Medium-Term Expenditure Framework
PAAGFP	Public Finance Improvement Action Plan
PAEI	Self-Employment Support Programme
PAGFPACAF	Project to Support Public Financial Management and Business Climate Improvement
PAREF	Economic and Financial Reforms Support Programme
PASCRP	Growth and Poverty Reduction Strategy Support Programme
PPM	Procurement Plan
PSO	Programme Support Operations
PVI-NG	New Generation Imports Verification Programme
SDG	Strategic Development Guidelines
TFP	Technical and Financial Partners
TFP-JBS	Technical and Financial Partners-Joint Budget Support
UA	Unit of Account
UNDP	United Nations Development Programme
UTIN	Unique Tax Identification Number
WAEMU	West African Economic and Monetary Union
WB	World Bank

LOAN INFORMATION SHEET**Client Information**

BORROWER	Republic of Benin
IMPLEMENTATION SECTOR	Economic and Financial Governance
EXECUTING AGENCY	Economic and Financial Programmes Monitoring Unit (CSPEF), Ministry of the Economy and Finance
AMOUNT	UA 30 million (of which UA 7.63 million from resources resulting from restructuring of the portfolio.
MODALITIES	1 st tranche: UA 15 million, and 2 nd tranche: UA 15 million
NUMBER OF TRANCHES	Two annual tranches

Financing of the Programme

<u>Source</u>	<u>Amount in UA million</u>	
	<u>2012</u>	<u>2013</u>
ADF	15.00	15.00
WORLD BANK	19.49	12.99
EUROPEAN UNION	31.87	13.98
TOTAL	66.36	41.97

Information on ADF Financing

Loan Currency	UA 30 million
Commitment Charge	0.50%
Other Charges (service)	0.75%
Duration	50 years, including a 10-year grace period.

Time-frame - Main Milestones

Preparation Mission	:	February 2012
Concept Note Review by OPSCOM	:	2 May 2012
Appraisal Mission	:	May 2012
Presentation of report to ADF Board	:	July 2012
Effectiveness	:	September 2012
Disbursement of the First Tranche	:	September 2012
Mid-Term Review	:	May 2013
Disbursement of the Second Tranche	:	June 2013
Annual Audit of TFP Financial Flows	:	June 2013 for First Tranche June 2014 for Second Tranche
Completion Report	:	June 2014

Programme Summary

Overview	<ul style="list-style-type: none"> ▪ Programme Name: Economic and Financial Reforms Support Programme (PAREF) ▪ Geographic Coverage: Nationwide ▪ Implementation period: 2012-2013 ▪ Programme Cost: UA 30 million ADF Loan ▪ Programme Type: General Budget Support Programme
Context and Rationale	<p>The programme is justified by the need for the Government to consolidate the positive results achieved in modernizing public finance and scale-up measures for improving the business climate where progress has been slow (see Technical Annex 2 on the Expected and Actual Outputs of the three previous PASCRPs). To achieve strong and inclusive growth, it is vital to foster the emergence of a formal private sector that can drive the country's economic development by creating wealth and employment. Support for the private sector must be based on an overall strategy backed by a Programme Action Plan to be implemented gradually. Lastly, the Government must be able to count on the support of the TFPs, including the Bank, to ensure implementation of the priority actions (2012-2013) of its new development strategy.</p>
Programme Outcomes	<p>The expected outcomes of the Programme include: (i) a revitalized private sector with a revised private sector policy, adoption of a legal and institutional framework for PPP financing, increase in the number of qualifying training centres, and creation of a Trades Certification Institution; (ii) enhanced financial governance with the adoption of a public finance legal framework and results-based budgeting in line with WAEMU community guidelines, adoption of annual procurement plans by the contracting authorities, and transformation of the Supreme Court Audit Bench into a Court of Auditors.</p>
Bank's Comparative Advantage and Value-Added	<p>The recent launching of the Project to Support Public Financial Management and Business Climate Improvement in Benin gave the Bank a relevant comparative advantage. Thus, in designing the PAREF, the Bank was able to identify the relevant priority actions and appropriate measures to be taken. Furthermore, the Programme contributes to regional integration by fostering the application of regional standards and guidelines in public finance, including procurement.</p>
Institutional Development and Knowledge Building	<p>The Programme will contribute to institutional development and knowledge building in public finance reforms and private sector development support mechanisms. The lessons to be learned from the implementation of the proposed measures will be used to improve the Bank's approach to the modernization of public financial management and assistance to private sector development in general, and to Benin, in particular.</p>

RESULTS-BASED LOGICAL FRAMEWORK

Country and Programme Name: Economic and Financial Reform Support Programme (PAREF)

Programme Goal: Contribute to strong and sustained economic growth by boosting the private sector and enhancing financial governance.

	OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATION MEASURES
		Indicator (including CSI)	Baseline Situation	Target		
IMPACT	Strong and sustained economic growth by boosting the private sector and enhancing financial governance.	GDP growth rate	3.5% in 2011	4.1% in 2013	National Statistics	<p>Risks:</p> <ul style="list-style-type: none"> • Macroeconomic instability due to country's high economic vulnerability to exogenous shocks • Fiduciary risks • Weak reform implementation capacity <p>Mitigation Measures</p> <ul style="list-style-type: none"> • The Government is committed to pursuing the implementation of the reforms in the cotton industry and public finance, including debt and financial sector management capacity building. • The authorities have made significant efforts in recent years to strengthen public finance management and mitigate fiduciary risks. These efforts will be sustained during PAREF implementation. • The Government's commitment to pursue the reforms and various institutional support programmes is a significant leverage for reducing this risk. The PAGFPACA will help to build the capacity of the main institutions in charge of implementing the programme.
		Population living below the poverty line	3.2% in 2011	28% in 2013	Programme Completion Report	
		Share of private investment (% of GDP)	11.6% of GDP in 2011	14.0% of GDP in 2013	Doing Business Report	
	Outcome 1: Private sector revitalized	1.1: Time taken to start a business	1.1: 31 days in 2011	1.1: 20 days in 2013	GPRS 2012-2013 monitoring report	
		1.2: Business start-up costs (% of per capita income)	1.2: 150% in 2011	1.2: 130% in 2013		
OUTCOMES	Outcome 2: Financial governance enhanced	1.3 : Number of formal businesses	1.3: 5,500 in 2009	1.3 : 6,000 in 2013	PEFA Report	
		1.4: Number of women benefiting from the self-employment programme.	1.4 : 891,000 in 2011	1.4 : 900,000 in 2013		
		1.5: Number of jobs (all sectors)	1.5: 2,754,781 in 2010	1.5: 2,853,600 in 2013		
		1.1: Efficiency in tax and customs revenue collection	1.1: PEFA Indicator - PI-15: D+ (2007)	1.1: PEFA Indicator - PI-2: C+ (2013)		
		1.2: Legislative scrutiny of external audit reports	1.2 : PEFA Indicator - PI-28: D (2007)	1.2 : PEFA Indicator - PI-28: C (2013)		
		1.3: Current expenditure execution rate (excluding wages) for priority social sectors	1.3: 82.9% in 2011	1.3: 90% in 2013	Annual GPRS Monitoring Report 2012-2013	
		1.4: Average time for procurement	1.4: 65 days in 2011	1.4: 55 days in 2013		

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATION MEASURES
	Indicator (including CSI)	Baseline Situation	Target		
Component A: Boosting of the Private Sector and Support for Employment					
OUTPUTS	1. Business environment and development of businesses	1.1: Sector policy	1.1 Private Sector Development Policy of 2006.	1.1 Revised Private Sector Development Policy	TFP-JBS Matrix Implementation Report
		1.2: Increased financing through PPPs.	1.2 Regulation on a case by case basis	1.2 Adoption of a legal and institutional framework for PPP financing	
	2. Support for employment promotion	2.1: Number of learners in vocational training centres	2.1 : 10,478 in 2010	2.1 : 23,200 in 2013	
		2.2: Trades certification	2.2 Non-existence of trades certification	2.2 Creating a Trades Certification Institution	
		2.3: Monitoring-evaluation of beneficiaries of employment loans	2.3 Non-existence of monitoring-evaluation of beneficiaries to assess their integration into the formal sector	2.3 Establishment of a monitoring-evaluation mechanism for following up fund beneficiaries in the formal sector	
Component B. Strengthening of Internal Resource Mobilization and Public Expenditure Efficiency					
	3. Tax and customs revenue	3.1 Level of identification of taxpayers	3.1 Non-issuance of Unique Tax Identifier at border posts	3.1 Issuing of Unique Tax Identifiers at border posts	TFP-JBS Matrix Implementation Report
	4. Public expenditure efficiency	4.1 WAEMU 2009 Guidelines on Public Finance	4.1 WAEMU guidelines being internalized	4.1 Texts on results-based budgeting consistent with WAEMU guidelines	PAGFP Report
		4.2 Procurement Plan	4.2 Deficiencies in procurement programming and management	4.2 Better programming with the generalization of Procurement Plans	
		4.3 Audit Bench not consistent with WAEMU guidelines	4.3 Transformation of the Audit Bench into a Court of Auditors	4.3 Bill establishing the Court of Auditors	

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATION MEASURES
	Indicator (including CSI)	Baseline Situation	Target		
KEY ACTIVITIES	<ul style="list-style-type: none"> - Signing of the Loan Agreement - Opening of a special account at BCEAO - Implementation of reforms - Half-yearly implementation reports - Programme Completion Report 			<p style="text-align: center;"><u>RESOURCES (UA Million)</u></p> <p>ADF : UA 30 million</p> <p>Other TFPs : UA 78.33 million</p> <p>Total : UA 108.33 million</p>	

REPORT AND RECOMMENDATION THE MANAGEMENT TO THE BOARD OF DIRECTORS OF THE AFRICAN DEVELOPMENT FUND CONCERNING A LOAN PROPOSAL TO THE REPUBLIC OF BENIN TO FINANCE THE ECONOMIC AND FINANCIAL REFORMS SUPPORT PROGRAMME (PAREF)

I. PROPOSAL

1.1 Management hereby submits the following report and recommendation concerning a proposal to grant a loan of UA 30 million (including UA 7.63 million from resources accruing from the restructuring of the portfolio) to the Republic of Benin to finance the Economic and Financial Reforms Support Programme (PAREF) for two fiscal years (2012 and 2013). It is the Bank's fourth general budget support (GBS) to Benin following a request from the Government of Benin dated 15 February 2012. The programme was appraised in May 2012 during which consultations were held with the country's authorities, as well as private sector and civil society actors. In addition to public finance reforms to enhance the credibility of the country's budgetary process, PAREF also focuses on reforms to address constraints on improvement of the business climate, private sector development and promotion of youth employment.

1.2 PAREF is aligned with Benin's national development strategy and the 2011-2015 Growth and Poverty Reduction Strategy (GPRS). It is also consistent with the Bank's Country Strategy Paper (CSP 2012-2016) priority areas, in particular Pillar II on Good Governance, as well as with the Bank's Governance Strategic Orientations and Action Plan for 2008-2012 (GAP). It falls within the framework of the Budget Support Protocol Agreement signed in December 2007 between the Government and the Technical and Financial Partners (TFPs). The Protocol Agreement seeks to enhance the predictability and execution of budget support. Furthermore, it complements the Programme signed in 2010 between the Government of Benin and the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) for the 2010-2013 period. PAREF, which is described in the Government's Letter of Development Policy (Annex 1), supports the Government's reforms programme and consolidates the progress made, and deepens the reforms supported by the Bank in its previous reform support programmes, in particular the series of policy-based operations (PASCRP I, II and III). In addition, the ADF XII resources provided under the programme will assist the country to mitigate the economic impacts of Nigeria's January 2012 decision to reduce hydrocarbon subsidies.

1.3 The development goal of PAREF is to contribute, through improved economic and financial governance, to creating conditions for inclusive economic growth driven by the private sector and job creation. The main operational objectives are as follows: (i) modernization of the legal and regulatory framework to boost the private sector and support job creation (Component 1), and (ii) enhancement of public financial management to improve social services delivery (Component 2). The expected outcomes of PAREF are: (i) a revitalized private sector with a revised private sector development policy, adoption of a legal and institutional framework for the financing of PPPs, increase in the number of qualifying training centres, and creation of a trades certification institution; (ii) enhanced financial governance with the adoption of a public finance legal framework and results-based budgeting consistent with WAEMU community guidelines, adoption of annual procurement plans by the contracting authorities, and transformation of the Supreme Court's Audit Bench into a Court of Auditors.

1.4 **This programme was designed following broad-based consultations involving several stakeholders**, in particular, administrative services responsible for public finance, private sector development and training, professional business groups (employers and

business women), the civil society and major technical and financial partners (WB, IMF, EU, UNDP, etc.). During the consultations, the importance of strengthening public financial management and private sector development were highlighted.

II. COUNTRY AND PROGRAMME CONTEXT

2.1 Recent Political, Economic and Social Developments, Constraints, Challenges and Prospects

2.1.1 ***Political Context:*** Benin is one of the most politically stable countries that have best achieved democratic transition. The presidential elections in 2011 saw the re-election of the incumbent president for a second five-year term. The results were challenged by the Opposition, without any violence. The parliamentary elections of April 2011 also gave a parliamentary majority to the re-elected president's alliance. This new political landscape should give the Government more leeway in conducting the reforms.

2.1.2 ***Economic Context:*** Following structural reforms (*modernization of the port, agricultural mechanization*) and a good agricultural harvest, the country recorded high growth between 2006 and 2008. The main growth drivers were cotton exports, food re-exports to Nigeria, and transit activities. However, as from 2009, the country was hit by various shocks, including the 2008 international financial crisis and the 2010 floods. These shocks slowed down economic growth, resulting particularly in a decline in external trade. Thus, economic growth fell from 5% in 2008 to 2.7% in 2009 and 2.6% in 2010 recovering slightly to 3.5% in 2011. Since 2009, inflation has remained moderate below the 3% threshold set in the WAEMU convergence criteria.

2.1.3 **The public financial position has, since 2008, been marked by a slowdown in revenue mobilization, which has constrained expenditures, especially those of priority social sector investments.** The country has faced revenue mobilization challenges because of difficulties encountered in 2011 in the implementation of the *New Programme for Imports Verification (PVI) and Competitiveness of Cotonou Port*. In this regard, tax revenues stagnated at 16.2% of GDP between 2009 and 2011, as against 17.2% in 2008. Following increased public spending in 2009 to help mitigate the impacts of the global economic crisis, the Government was compelled to control the level of expenditures in view of the slowdown in revenue collection. Then followed budgetary cuts, which did not completely spare pro-poor spending. Thus, Government expenditures fell from 26% of GDP in 2009 to 21.9% in 2011. Furthermore, the expenditures were marked by a high wage bill representing about 45% of Government tax revenues, as against a maximum of 35% set in the WAEMU convergence criteria. As a result of prudent spending, the ratio of total budget deficit (authorization basis) to GDP was moderate at 3.1% in 2010 and 4.3% in 2011, as against 7.5% in 2009. The deficit was financed by domestic debt and essentially concessional external support, representing on average 2.1% and 3.8% of GDP in 2009 and 2011 respectively.

2.1.4 **The risk of Benin's exposure to debt overhang is low.** The debt sustainability analysis updated in 2011 indicates that the risk of debt overhang for the country is low. However, the analysis took into account the implementation of structural reforms and continuation of concessional external support. The situation of current external transactions deteriorated in 2011. The current account deficit rose from 6.9% of GDP in 2010 to 8.7% in 2011 due to an increase in petroleum product imports and a decline of budget support. The current account deficit is funded by net public and private capital inflows of about 40% and 60% between 2009 and 2011 respectively.

2.1.5 Macroeconomic management in Benin is based on the Extended Credit Facility (ECF) signed with the IMF in June 2010. The third review of the Programme was concluded by the IMF Executive Board on 27 March 2012. Overall, the programme outcomes were satisfactory. All the criteria and most of the quantitative targets were met, thanks to the implementation of structural reforms, particularly tax and customs reforms (*see §4.2.11*). However, the target for revenue mobilization was not attained because of inadequate customs revenue due to resistance to the implementation of the PVI. This also impacted on the level of execution of priority social spending, which fell below the projections. On the whole, the financial sector remains stable, but the banks' lending portfolio deteriorated and some smaller banks do not comply with the increased capital requirements. The authorities are determined to pursue the structural reform programme vigorously in order to improve revenue collection and public finance viability.

2.1.6 Medium-term prospects: Overall, the country's medium-term prospects are positive, with accelerated growth following implementation of the Third Growth and Poverty Reduction Strategy. Real GDP growth is projected at 4.2% for 2012 and 4.1% for 2013. These levels will mainly result from stronger measures to ensure agricultural recovery and improve the competitiveness of the Autonomous Port of Cotonou, particularly with the commissioning of two new quays and the one-stop shop for import-export activities. However, the economy is expected to be adversely affected by the upsurge in oil prices as a result of reduced fuel subsidies in Nigeria, which would generate over 5% inflation in 2012 as against 2.7% in 2011. The fiscal deficit (authorization basis) is expected to average 0.7% of GDP between 2012 and 2013, and be financed through concessional external resources. Despite the increase in exports due to increased agricultural production, the external current account deficit is expected to remain stable at around 8.7% of GDP in 2011 because of high imports. However, these medium-term prospects will depend on the country's capacity to undertake reforms, particularly in growth-oriented sectors such as the development of agricultural sub-sectors and infrastructure, as well as improvement in public financial management and the competitiveness of the Autonomous Port of Cotonou.

2.1.7 Governance performance: The economic and financial governance indicators remain mixed, despite the progress made over the past few years. The 2011 *Mo Ibrahim Index of African Governance Report* ranked Benin 11th out of 53 countries. **The country was rated 60 (out of 100) as against 57 in 2010, well above the continental average of 50.** With regard to the fight against corruption, efforts still need to be made to contribute to optimal functioning of the economy. In 2011, *Transparency International* ranked Benin 110th out of 178 countries with a Corruption Perception Index (CPI) of 3.0 on a scale from 0 (high corruption) to 10, which highlights the need to undertake urgent actions in this area. The Government is aware of this and is determined to combat the phenomenon. To that end, it is focusing on modernizing the legal framework and strengthening institutions, including civil society institutions. Thus, it passed *a law on corruption and other related offences* on 30 August 2011, which provides for the establishment and operationalization of anti-corruption institutions.

2.1.8 The authorities have implemented several reforms since the last PEFA conducted in 2007, to enhance public financial management through the Public Financial Management Improvement Action Plan (PAAGFP). The outcomes of the self-evaluation of the public financial management system¹, whose validation workshop was held in March 2012, indicated that progress had been made in external debt management, computerization of the expenditure chain, production of annual public accounts, and strengthening of the public procurement legal framework. However, it also revealed

¹ Assessment by the Government based on the PEFA method.

weaknesses in the following areas: (i) internal resource mobilization; (ii) public resource programming and allocation; (iii) planning and management of the Government treasury, as well as production and publication of the Audit Bench evaluation reports.

2.1.9 Investment Climate: The formal private sector of Benin has about 5500 enterprises of all sizes, with the predominance of 43% of commercial activities. In view of the young age of most of these enterprises and the very low rate of employment of workers and limited capital, they are hampered by drawbacks such as the lack of experience of their managers, low equity capital, vulnerability of trade channels mainly to Nigeria, and dependence on supplies. They also lack essential assets such as the level of training of their managers and the use of NICTs as tools for managing the country's hub location. Over the past few years, the Government has made efforts towards private sector development with the adoption of the Investment Code and establishment of support structures such as: the Business Registration One-Stop Shop (*GUFE*) to reduce the time and cost of starting businesses, the one-stop shop at the Port to facilitate import-export activities, as well as tax measures to reducing management expenses, etc. Despite these actions, the business environment has remained unfavourable in view of the high perception of corruption, difficult access to credit, inadequate infrastructure, low qualifications of labour, and administrative red tape. Indeed, the World Bank's *Doing Business 2012* ranks Benin 44th out of 51 countries in Africa. The *World Competitiveness Report 2011-2012* ranks Benin 104th out of 142 countries, which is a drop by one position in comparison to 2010-2011. Benin still does not have an adequate legal and institutional framework to attract foreign direct investments (FDIs), particularly for Public-Private Partnerships (PPPs). Indeed, the private investment rate was 11% of GDP between 2005 and 2010, compared to 15% in the sub-region and Africa as a whole. Similarly, foreign direct investment inflows stood at less than 2% of GDP as against a continental average of 4%.

2.1.10 Social Context: Poverty is still persistent in Benin despite the strides made in access to social services (health and basic education). Indeed, 32.3% of the population still lives below the poverty line. In 2012, the *UNDP Human Development Report* indicated that the country had a Human Development Index (HDI) of 0.427, which is below the Sub-Saharan average of 0.463. In the education sector, despite the free education policy, the primary education completion rate has stagnated over the past 5 years. However, significant progress has been made in the health sector, particularly in infrastructure. Thus, the rate of births attended by qualified health personnel reached 74% in 2011. However, these national averages conceal regional and gender disparities. Furthermore, quality in access to these services still remains a challenge. The country has also made progress in access to drinking water, rising to 75% in 2011. Lastly, unemployment and under-employment remain a cause for concern since they affect over 70% of the population of working age, with 94% of the working population employed in the informal sector. This predominance of the informal sector, dominated by women, is a structural characteristic of Benin's labour market. The scale of youth unemployment and under-employment, in particular, is due to the imbalance of the labour market which, each year, has to deal with the arrival of many job seekers despite the limited offers and the training-employment mismatch.

2.1.11 Constraints and Challenges: The main challenges that need to be addressed as part of the implementation of the GPRS to achieve 7.5% growth by 2015 are as follows:

- ***Pursuance of reforms to improve revenue mobilization and enhance public spending efficiency:*** Internal resource mobilization needs to improve help broaden the fiscal space and undertake structuring investments to improve the competitiveness of the country's economy. Furthermore, it is essential to improve the effectiveness and efficiency of public expenditures through better

programming and public resource allocation and by strengthening the integrity, transparency and efficiency of the national public procurement system. Finally, accountability and strengthening of the internal and external control systems are additional guarantees for improving the public financial management system.

- ***Private sector development and economic diversification to reduce the country's vulnerability to exogenous shocks (cotton prices) and ensure strong growth:*** In addition to the infrastructure deficit, the main obstacles to private investment development include administrative red tape in obtaining the required administrative documents, poor coordination between the Government structures in charge of private sector development, high cost of factors of production, insufficient qualified human resources, high perception of corruption, and difficult access to credit and land titles.
- ***Improvement of balance between training and employment for inclusive growth:*** Although the integration of youths into the labour market is a key factor of inclusive growth, there are significant quantitative and qualitative imbalances between training and employment. The challenge is to improve the employability of youths through better adaptation of training to labour market needs, with special emphasis on the governance of the final levels, namely vocational training and higher education.

2.2 Overall Development Strategy and Medium-Term Reform Priorities

2.2.1 The reference document of Benin's development policy is the Growth and Poverty Reduction Strategy (GPRS) derived from the long term vision outlined in "Benin 2025" and the Strategic Development Guidelines (OSD) defined by the Government in 2006. The GPRS 2011-2012 has five priority areas: (i) sustainable acceleration of economic growth and transformation; (ii) infrastructure development; (iii) strengthening of human capital; (iv) promotion of good governance; and (v) balanced and sustainable development between the regions. To implement the strategy, sector plans and policies consistent with these priority areas have been formulated; they include the Three-year Growth Recovery Plan, Public Financial Management Improvement Action Plan, the Energy and Transport Infrastructure Development Programme, and the Agriculture Sector Recovery Strategic Plan. As regards public financial management, the Government formulated the PAAGFP 2009-2013 in 2009 which constitutes the blueprint framework for public finance reforms in Benin. Its implementation helped to make significant progress, as previously indicated in § 2.1.8. It is jointly monitored with the development partners.

2.2.2 With regard to the private sector, the country prepared a *Letter of Development Policy* in 2006. In view of the changes in the country's context, this sector policy needs to be updated while ensuring that the roles of the various actors involved in its implementation are clarified. Furthermore, their coordination and monitoring capacities will need to be strengthened to ensure achievement of the expected results of the revised policy.

2.3 Status of Bank Group Portfolio

2.3.1 As at end March 2012, the Bank's portfolio in Benin comprised eight (8) active national projects amounting to *UA 210.37 million* and two (2) multinational projects totalling *UA 25.8 million*. The portfolio is dominated by transport infrastructure (45%), followed by agriculture (29%), the social sector (9%), energy (8%), drinking water and sanitation (5%) and lastly, governance (4%). On the whole, the portfolio performance is deemed satisfactory

with an overall score of 2.22 on a scale of 1 to 3, compared to 2.18 in 2009. The last review conducted in March 2012 indicated satisfactory performance in transport infrastructure and energy sectors, as well as support to improve governance. However, the overall disbursement rate remains low (*less than 25%*). Despite the restructuring undertaken in 2011 and 2012, the current portfolio still has a high proportion of projects at risk (4). The main difficulties of the portfolio are: (i) protracted delays in the ratification of loans and procurement, (ii) unavailability of counterpart funds, (iii) lack of ownership by project implementation entities at the start-up phase, and (iv) often delayed setting up of project teams. The involvement of the Bank Office in Togo² will help to closely monitor these recurrent challenges and provide lasting solutions to improve the portfolio performance.

III. RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

3.1 Linkages with the CSP, Assessment of Country Preparedness and Underlying Analytical Elements

3.1.1 ***Linkage with the CSP:*** PAREF is fully aligned with the Bank’s Country Strategy Paper 2012-2016, and is consistent with the Growth and Poverty Reduction Strategy “GPRS-Phase III” 2011-2015, approved in March 2011. PAREF falls within the guidelines of this new strategy and is based on three of the five strategic areas, namely (i) sustainable acceleration of economic growth and transformation; (ii) strengthening human capital; and (iii) promotion of good governance. Furthermore, by strengthening financial governance and contributing to private sector revitalization and employment support, PAREF will contribute to the implementation of Pillar II of the CSP, namely promotion of good governance, and beyond, to achieving the overall goal of the CSP of promoting inclusive and job-creating growth. Lastly, the programme is aligned with the priorities of the Bank Group’s Long-Term Strategy (LTS) undergoing finalization, and reflects the 2008-2012 Governance Strategic Guidelines with improvement of the business environment and financial governance as priority areas.

3.1.2 ***Assessment of country preparedness and consistency with the Bank’s safeguard policy:*** Benin meets the general and technical criteria for benefiting from a Budget Support Loan, in accordance with the Bank’s policy for programmatic support operations³ adopted in March 2012. With regard to the general conditions, Benin is one of the most politically stable African countries to have successfully undergone democratic transition.

² Under implementation of the roadmap on decentralization, the ADB Country Office in Togo will monitor the Bank’s operations in Benin.

³ ADB/BD/WP/2011/68/Rev.3

Table 1
PSO General and Technical Conditions

Pre-requisites		Comments
GENERAL PRE-REQUISITES	Government's commitment to poverty reduction	The Government in March 2011 adopted the Second Growth and Poverty Reduction Strategy (GPRS-III) for the 2011-2015 period. GPRS-III was prepared with the active participation of all the national stakeholders and in consultation with the TFPs. This new strategy aims to correct the inadequacies of the first two strategies and consolidate the country's efforts towards an emerging economy. To monitor the strategy, a minimum list of indicators was formulated, and this will be updated in line with the periodic results of the Integrated Modular Household Living Conditions Survey. The Government is aware that to guarantee the successful implementation of the new strategy, it would be necessary to pursue public financial management reform measures and increase the Government's capacity for improving social services delivery and boosting the private sector to create more wealth and jobs in the country.
	Macroeconomic Stability	For several years, Benin has been pursuing a prudent macroeconomic policy as part of economic and financial programmes supported by donors including the Bank Group. In particular, the Extended Credit Facility, signed with the IMF in June 2010, defined a viable microeconomic and financial framework for 2010-2013. The successes recorded in previous years in the implementation of the reform programmes enabled the country to benefit from the HIPC Initiative debt relief in early 2003, followed by the MDRI in 2006. Despite the various international food, energy and financial crises, this performance helped to achieve a 3.6% average growth between 2006 and 2011.
TECHNICAL PRE-REQUISITES	Fiduciary Risk Assessment	The assessment of the fiduciary risk by the Bank during preparation of CSP 2012-2016 and PAREF indicated a relatively moderate risk level. Despite the significant progress made in recent years, a lot still remains to be done, especially in budget execution, including procurement and the production and publication of the Audit Bench reports on the State budget execution. Overall, the PFM system meets the minimum requirements of the Bank for the proposed ABG operation. In the light of the fiduciary risks, PAREF contains safeguard measures (see Technical Annex1).
	Political Stability	<i>Benin is one of the most politically stable African countries that has undergone the most successful democratic transition. The presidential elections held in 2011 culminated in the re-election of the incumbent president for a second five-year term.</i> The parliamentary elections held the same year also gave the alliance of the re-elected president a majority of seats in parliament. This new political landscape should give more room for manoeuvre to the Government in carrying out the reforms, compared with the previous parliament during which the strong parliamentary opposition hampered the passing of several laws.
	Harmonization	There is a strong partnership among the donors as indicated in Section 3.2 below.

3.1.3 **Major underlying analytical studies:** Several studies conducted by the Bank or other Technical and Financial Partners (TFPs) have guided the design of this programme; they are: (i) PEFA (2007) and the self-assessment carried out by the Government using PEFA methodology (2012); (ii) the Public Expenditure Review report (March 2011) prepared by the World Bank in collaboration with other TFPs, including the Bank; (iii) *Doing Business 2012* report and the World Bank study on Constraints on Growth and the Potential for Diversification and Innovation (2009); and (iv) the interim report on Economic Growth Recovery Plan for Benin being finalized which was the subject of a governmental validation seminar in December 2011, and (v) the Ten-Year Education Sector Development Plan. The main recommendations of these studies highlight the need to: (i) diversify the economy, (ii) reduce the country's vulnerability to exogenous shocks, (iii) improve the overall and sector competitiveness of the economy, and (iv) enhance the efficiency of public financial management to ensure satisfactory implementation of the GPRS and better allocation of resources to priority sectors.

3.2 Donor Collaboration and Coordination

3.2.1 *Benin receives budgetary assistance support from three multilateral partners (ADB, World Bank and European Union) and bilateral partners*⁴. This operation was designed in collaboration with the Government and the TFPs, members of the Joint Budget Support Group who, in December 2007, signed a Protocol of which one of the objectives is to improve budget support predictability and implementation. To implement this Protocol, the Government and the partners defined a rolling matrix of performance and disbursement criteria reviewed at joint annual meetings. The PAREF measures and disbursement conditions for the ADF contribution are drawn from this matrix for the 2012-2013 period.

3.2.2 *At the operational level, PAREF has developed complementarity with several donor operations.* The Bank, World Bank and European Union have, in a coordinated manner, been supporting reforms in growth enhancement and improvement of the business environment, as well as strengthening of public finance. The World Bank's intervention, through its budget support and the Institutional Support Project (PROCCI), focuses mainly on support for competitiveness of the economy and public administration reform. The World Bank also collaborated with the IMF in monitoring structural reforms, particularly those related to the public enterprises privation programme, as well as tax and customs reforms. Several other TFPs support the implementation of GPRS-III. The intervention areas of the TFPs are indicated in Annex 3.

3.3 Outcomes and Lessons from Previous Operations

3.3.1 *Lessons from similar operations:* To date, the Bank has financed three policy-based operations (PASCRP I, II and III) in Benin. An analysis of the completion reports⁵ of these operations indicates that continued financing of the implementation of Benin's development strategy through budget support is relevant, despite the decline of the CPIA in 2010 due to the negative impacts of external shocks, particularly the 2008 financial crisis and the 2010 floods. The budget support helped to strengthen ownership of the implementation of the reforms, improve dialogue with the TFPs, and enhance predictability of assistance from the Bank and other donors to Benin. The table below outlines the lessons learned from these operations and reflected in the formulation of this Programme⁶:

Table 2
Lessons Learnt from Previous Operations and Reflected in the PAREF Formulation

	Main Lessons	Reflection in PAREF
Completion reports of the three previous policy-based operations	Budget support operations must be conducted alongside institutional support projects targeting the same priority areas.	The support projects for public financial management and improvement of the business climate, whose activities started in November 2011, target the same priority areas as PAREF.
	The need to have a stable institutional base and be attached to policy-making body	The CSPEF, which is the PAREF executing agency, attached to the Office of the Minister of Finance, implemented the Bank's three previous policy-based operations.
	The existence of a harmonized multi-donor framework is a key pre-requisite for the success of the programme	PAREF will be implemented through the harmonized TFP-JBS Group.

⁴ Denmark, Netherlands, France and Germany

⁵ PASCRP I (ADF/BD/IF/2006/155), II (ADF/BD/IF/2008/254) and III (ADF/BD/IF/2011/158) Completion Reports.

⁶ These lessons have been confirmed by the joint evaluation of the public financial management reforms in Burkina, Ghana and Malawi conducted by OPEV in April 2012 (ADF/BD/WP/2012/36). The other major conditions mentioned by the study for a successful GFP reform, namely strong political commitment and alignment with the government's reform plan were fulfilled under PAREF, aligned with PAAGFP whose implementation is actively supported by the Beninese authorities .

3.3.2 Progress made by the Bank's previous support operations: The implementation of the three previous operations led to significant progress in the modernization of public financial management and strengthening of good governance. As regards public finance, progress was made in the following aspects: (i) programme-budgets, previously limited to 19 pilot ministries but currently have been extended to all the ministries, thereby facilitating the transition to results-based budgetary management; (ii) the public procurement system was renovated with the adoption of a new code and establishment of the system's management structures; (iii) the back-log of public account audits was partly absorbed; (iv) delays in paying invoices submitted by the government's suppliers were reduced. Technical Annex 2 details the achievements made in comparison to the expected outputs of the implementation of these three previous policy-based operations of the Bank. This programme seeks to consolidate the progress made in public finance modernization. It will broaden the measures to improve the business climate, where progress has been inadequate. Consequently, PAREF aims to: (a) widen the scope of public finance reforms to include results-based management; (b) enhance measures to revitalize the private sector and give greater impetus to the country's economic development through wealth and employment creation, particularly for young people.

3.4 Linkages with Ongoing Bank Operations

3.4.1 Relations with other Bank operations: PAREF is closely related to the Support Project for Financial Management and Improvement of the Business Climate launched in February 2011. The aim of the project is to build the capacity of institutions in charge of public resource management and state and non-state entities providing support to private sector development. Furthermore, the project will build the institutional capacity needed for implementing reforms supported by PAREF. PAREF measures to consolidate the public procurement system will contribute to accelerating the execution of other Bank projects in Benin, while improvement of the business environment will pave the way for the intervention of the Bank's *Private Sector Window* in Benin.

3.5 The Bank's comparative advantage and value added

Over the past few years, the Bank has developed regional experience through its operations in several countries, particularly those of the WAEMU, in the areas of public finance reforms and improvement of the business environment. In Benin, the Bank has funded a number of policy-based operations (PASCRP I, II and III) that have enabled it to acquire considerable experience in the public finance restructuring process. More recently, the launching of the Support Project for Public Financial Management and Improvement of the Business Climate in Benin gave the Bank a comparative advantage in the two aforementioned areas. Thus, in designing PAREF, the Bank was able to identify priority actions and measures to be taken in these areas. Furthermore, the Programme contributes to regional integration efforts by fostering the application of regional standards and guidelines in public finance, including public procurement.

3.6 Application of best practice principles with regard to conditionalities

In the design of PAREF, the five (5) best practice principles regarding conditionalities were observed: (i) ownership stems from fact that the Programme is designed with the active collaboration of the authorities and is based on GPRS-III; (ii) the Government and TFPs have agreed to maintain the JBS Group as the coordinating entity for budget support; (iii) the conditions of Bank support are aligned with national priorities (GPRS-III); (iv) the number of

disbursement conditions has been reduced and are based on the joint matrix (JBS Matrix); and (v) the Bank's support is aligned with the country's budgetary cycle.

3.7 Application of ADB policy on non-concessional loans

The programme is consistent with the Bank's principles on concessional loans. Pursuant to the ECF signed with the IMF on 14 June 2010, the Government will not contract any non-concessional loan during PAREF implementation.

IV. PROPOSED PROGRAMME

4.1 Programme Goal and Objectives

4.1 The goal of the Economic and Financial Reform Support Programme (PAREF) is to contribute, through improved economic and financial governance, to creating conditions for inclusive economic growth driven by the private sector. The specific operational objectives are as follows: (i) modernization of the legal and regulatory framework to boost the private sector and support job creation; and (ii) enhancement of public financial management to improve social services delivery.

4.2 Programme Pillars, Specific Objectives and Expected Outcomes

PAREF has two components namely: (i) **Private Sector Revitalization and Employment Support;** and (ii) **Strengthening Internal Resource Mobilization and Public Expenditure Effectiveness.**

Component A: Boosting of the Private Sector and Support for Employment

4.2.1 Limited diversification remains a constraint on the rapid and sustained growth of Benin's economy. This situation is essentially due to low private sector development. In addition to infrastructural deficit, the obstacles to private investment include an unfavourable business environment, inadequate qualified human resources, as well as difficult access and high cost of financing. This component comprises two sub-components, namely: (a) *Improvement of the Business Environment and Development of Enterprises*, and (b) *Support for the Promotion of Employment*.

➤ *Sub-component A.1: Improvement of the Business Environment and Development of Enterprises*

4.2.2 **Context and challenges: With regard to improving the business environment**, Benin's ranking in "Doing Business 2012" fell from 173th out of 183 countries in 2011 to 175th. There are still obstacles such as administrative red tape, high costs of factors of production, difficult access to financing due to lack of collateral to guarantee bank loans and the mistrust of banks based on the inability of the judicial system to recover debts in case of disputes between business operators and banking institutions, widespread corruption in the public administration, as well as the absence of a legal and institutional framework for public-private partnership (PPP) that would create opportunities for the private sector to be involved in the financing and management of infrastructure projects already identified, such as a new Cotonou airport, the proposed deep-water harbour with a mineral terminal and dry docks to decongest the Cotonou Port as well as the *Parakou-Niamey Railway Line* linking Benin to Niger. ***Regarding the development of enterprises***, informal activities accounted for 65% of GDP in 2009, as against a sub-Sahara African average of 42%, and 7.8% of GDP for industry. The informal sector employs 94% of the working population, and concerns over 9 out of 10

businesses. The major challenges are: (i) application of a tax system adapted to small and micro-enterprises that would gradually attract informal businesses towards the formal sector; (ii) easier access to land titles in urban and rural areas; (iii) better regulation of the micro-finance sector to allow for inclusive funding of income-generating activities; (iv) more sustained coordination of the various initiatives for private sector promotion; and (v) design of a medium and long-term private sector development strategy with a multi-year action plan.

4.2.3 **Recent Government actions:** In efforts to improve the business climate, several actions have already been undertaken, in particular: (i) the adoption of the SME/SMI Charter; (ii) the opening of One-Stop Shop in Cotonou Port for import-export activities; (iii) reducing to 3 days the time needed to issue the unique tax identification number (UTIN) to business operators; (iv) promulgation of *Law No. 2011-20 on the Fight Against Corruption and Related Offences* on 12 October 2011. Furthermore, to allow for private investor financing of major infrastructure projects, the Government adopted, with World Bank assistance, a roadmap for providing Benin with a modern regulatory framework on public-private partnership. As regards land management, the actions undertaken concern: (i) the conduct of a study on conditions of access to land and the emergence of an effective liquid and secure real estate market; (ii) the adoption of the Land Policy Declaration in July 2010; and (iii) the issuing of urban land titles. Lastly, in order to improve the regulation of microfinance where nearly 70% of the beneficiary institutions operate in the informal sector, the Government adopted *Law No. 2012 regulating decentralized financial systems* on 26 January 2012.

4.2.4 **Programme Measures:** As regards improvement of the business climate and continued support for reforms in this area, the Programme will support the following measures: (i) formulation and adoption of an SME/SMI development strategy with a multi-year action plan; (ii) coordination of multiple reform initiatives in the various administrations by the SME Technical Support Unit (CAT); (iii) formulation of a procedures manual governing public-private partnership in line with the Government's roadmap; and (iv) adoption of three implementing decrees of the law on corruption, namely: a decree on the creation, powers, organization and functions of the National Anti-Corruption Authority, a decree on the implementation modalities of Sections 3 and 10 of the law, and the decree defining the conditions of special protection granted to whistleblowers, expert witnesses and victims. **With respect to the development of enterprises,** the Programme will, in synergy with existing support from other TFPs, including the World Bank and the European Union, support the following measures: (i) simplify tax procedures applied to micro, small and medium enterprises and disseminate the major tax regulatory instruments on the DGID website; (ii) reduce the number of unregistered institutions under enforcement of the new *Law No. 2012-14 of 26 January 2012 regulating decentralized financial systems*; (iii) adopt, in a Cabinet Meeting, a decree on the powers, organization and operation of the National Lands Agency (ANDF) and take appropriate steps to start its activities.

4.2.5 **Expected outcomes:** Implementation of the reform in this sub-component will: (i) reduce the time required to register businesses from *31 days* in 2011 to *20 days* in 2013; (ii) reduce the cost of starting a business proportional to per capita income from *150%* in 2011 to *130%* in 2013; (iii) offer new financing opportunities for major projects based on the PPP formula; (iv) provide a clear picture of the medium to long term development of the private sector.

➤ **Sub-component A.2 : Support for the Promotion of Employment**

4.2.6 **Context and Challenges:** Estimates by the Ministry of Employment indicate that under-employment is around 75%. Furthermore, nearly 94% of the working population are employed in the informal sector. This predominance of the informal sector is a structural characteristic of the national labour market. As for the educational system, it is marked by a

significant imbalance of the education pyramid. At the lower level, only 64% of children of a generation completed primary education in 2010. On the other hand, in the upper section, whereas nearly 10% of the working population reached higher education in 2010, the number of senior staff accounted for only 2.5% of the workforce. This imbalance of the education pyramid and the inadequate diversification of training have resulted in a major mismatch between training and employment, particularly for the youths. The employment challenges to be met are as follows: (i) development of a high value-added and employment-generating private sector; (ii) organization of education and training, in terms of quantity and quality, to meet the structure of the labour market; and (iii) establishment of an information system on vocational training to improve management of the sub-sector.

4.2.7 Recent Government Actions: To address the problem of unemployment, particularly among the youths, several programmes and actions have been initiated by the Authorities of Benin, in particular: (i) creation of temporary jobs through the Salaried Employment Support Programme (PAES) aimed at fostering the pre-integration and integration of young people and women into the Public Administration and, more recently, into private businesses and entities; (ii) training of entrepreneurs through the Self Employment Support Programme (PAEI); (iii) revitalization of the National Employment Agency (ANPE); (iv) establishment of a National Enterprise and Youth Employment Promotion Fund (FNPEEJ) aimed at reducing youth unemployment through loans; and (v) establishment of a national microfinance fund that granted loans to about one million beneficiaries to support their activities.

4.2.8 Programme Measures: The programme measures are as follows: (i) increase in the number of qualifying vocational training centres from 19 to 24; (ii) establishment of a Trades Certification Institution; (iii) adoption of a regulatory instrument prioritizing the granting of microfinance loans and other funds to certified trade professionals; (iv) establishment of an adequate monitoring-evaluation mechanism to monitor the development of beneficiaries of the Fund and their integration into the formal sector.

4.2.9 Expected Outcomes: The measures of this sub-component are expected to strengthen the human capital so as to promote business and improve satisfaction of the needs of enterprises in terms of sufficiently qualified human resources and creation of conditions for the development of trades towards the formal sector.

Component B: Strengthening of Internal Resources Mobilization and Public Expenditure Efficiency

This component will support the Government's efforts to further improve financial governance so as to safeguard State resources and ensure better use for the population. To that end, it comprises two sub-components: the first seeks to enhance the mobilization of internal resources generated through economic activities that will help support public demand to which the revitalized private sector enterprises will make offers. The second concerns efficiency of public spending through its impact on improving pro-poor social services delivery so as to reduce poverty.

➤ *Sub-component B.1: Improvement of Internal Revenue Mobilization*

4.2.10 Context and Challenges: As a result of efforts made by the Government a few years ago, the level of mobilization of internal revenue rose to 17.2% of GDP in 2008 and thus met the WAEMU community standards of a minimum of 17%. However, a downward trend has been noted over the past three years, since tax revenue accounted for only 16.2% in 2011. The reasons for this situation are institutional and technical weaknesses, as well as the inadequate

capacity of revenue offices and tax evasion. The challenge to overcome at this level is double: first, widen the tax base to ultimately achieve a significant reduction of the tax ratio for formal businesses in order not to compromise their competitiveness, and second, intensify the fight against fraud in order to curb tax evasion.

4.2.11 **Recent Government actions:** To remedy inadequacies in resource mobilization, the authorities took a number of measures in 2009 under the Public Financial Management Improvement Action Plan. *As regards tax revenue*, the reforms focused on: (i) the creation of the Unique Tax Identification Number (UTIN) and its extension to all economic activity areas so as to safeguard tax revenue by broadening the tax base; (ii) establishment of interfaces between the UTIN and other public financial management software. *With respect to customs*, in addition to the creation of the One-Stop Shop in 2011 at the Port for import-export operations, the flagship reform initiated was the new generation *Import Verification Programme (PVI)* designed to substantially increase customs revenue. However, the implementation of the PVI on the ground is encountering difficulties. One of the consequences of this situation has been the congestion of the port platform and the risk of the gradual erosion of its competitiveness in comparison to other ports in neighbouring countries.

4.2.12 **Programme Measures: To support the progress achieved by the Government since 2009 in PAAGFP implementation**, the Programme provides for the following measures: (i) establishment of a mixed tax/customs control squad and start of its activities to effectively combat tax fraud and evasion; (ii) extension of the UTIN to other natural or legal persons through sensitization campaigns; (iii) adoption, by the Cabinet Meeting, of the draft decree transmitting the Customs Code to the National Assembly; (iv) interconnection of the customs units and centralization of SYDONIA++ (ASYCUNDA) software; (v) taking measures to pursue implementation of the PVI with, where necessary, a review of the implementation modalities of specific services and relaxing of the tariffs in force so as to safeguard the competitiveness of Cotonou Port in comparison to other ports in the sub-region; and (vi) the institution of a tax system for small and micro enterprises in 2013.

4.2.13 **Expected Outcomes:** The expected outcomes of these reform measures are, in particular: (i) transparency in customs clearance and tax collection procedures; (ii) substantial reduction of fraud; and (iii) increase in tax revenue by at least 2.3% in 2012 and 7% in 2013.

➤ ***Sub-component B.2: Strengthening Public Expenditure Efficiency***

To strengthen public expenditure efficiency and thereby improve social services delivery and attain the MDG targets, it is necessary to: (i) ensure consistency of public spending with the priorities of the poverty reduction strategy; (ii) strengthen the public procurement system to guarantee fair competition for Government contracts between the private bidders and reduce lead times for executing public contracts, particularly in the social sectors; and (iii) strengthen budget execution control in order to eliminate management malpractices.

4.2.14 **Context and Challenges: Regarding consistency of the composition of public expenditure with development priorities**, the outcomes of the public expenditure review of March 2011 indicate that in spite of the efforts made by the Government to increase budgetary allocations to the priority sectors, these are not reflected in the actual expenditures, which hampers the improvement of social indicators. The following table presents the expenditure execution rate of social sectors in relation to the 2010 budgetary allocations.

The recurrent expenditure execution rate, excluding salaries, was low. As for internally-

<i>Ministries</i>	<i>Recurrent Expenditure</i>	<i>Capital Expenditure</i>
Maternal and Primary Education	59.68%	60.61%
Water	73.53%	12.51%
Health	60%	24.62%

funded capital expenditure, the execution rates were lower still, with the exception of the Ministry of Maternal and Primary Education where the rate was 60.61%. This is partly due to the fact that the health services attendance rate for 2010 was only 47% and that rate of access to drinking water and electrification were 57.2% and 27.4% respectively. **Concerning the public procurement system**, significant progress has been made over the past few years; for example the adoption of *Law No.2009-02 of 16 August 2009 on the Public Procurement Code and the public service delegations, and its six implementing decrees*. However, most of the decrees are yet to be operational. The difficulties facing the DNCMP in the monitoring and supervision of the public procurement procedures include communication, by the contracting authorities, of their annual procurement plans (PPM) before the start of each fiscal period. Furthermore, public procurement auditing, which is a responsibility of the ARMP, is not systematic. **Lastly, regarding the strengthening of budget management control**, the status of the Audit Bench of the Supreme Court does not provide this key external audit institution with enough latitude to diligently carry out the tasks entrusted to it as part of its mission. Furthermore, the WAEMU Directive requires that member States put in place fully independent Courts of Auditors to strengthen external scrutiny of budgetary management.

4.2.15 **Recent Government Actions:** As regards public expenditure, the reform focused on the establishment of the Integrated Public Financial and Accounting Management System, which made expenditure execution more fluid. It still requires interconnection with the other management softwares, particularly in revenue offices (Customs and Taxes). With regard to public procurement, progress was made, particularly, the establishment of the system's management Anderson regulatory entities, namely ARMP, DNCMP, and the contracting authorities in some ministries and institutions, followed by the training of the staff of these new entities. Lastly, to strengthen external audit, there is currently reflection on the creation of a Court of Auditors in accordance with the new relevant WAEMU directives.

4.2.16 **Programme Measures:** To improve expenditures efficiency, the measures for this sub-component are: (i) approval, by the Cabinet Meeting, of the new decree on the powers, organization and operation of the ARMP; (ii) conduct in 2012 the public procurement audits for 2008, 2009, and 2010 to allow for an overall and comprehensive assessment of public procurement; (iii) communication, to the DNCMP, of the annual Procurement Plan by the contracting authorities and institutions, without which the procurement documents submitted will not be processed (PPM 2013 before end 2012 for the social sectors and PPM 2014 before end 2013 for all ministries); (iv) enhanced auditing of the service provided with the preparation of an annual report on the auditing of service by the Financial Controller; (v) transformation of the Audit Bench of the Supreme Court into a Court of Auditors, pursuant to WAEMU directives, with the strengthening of its capacity with human, material and financial resources; and (vi) transmission of the draft 2007, 2008 and 2009 audited budget to the National Assembly.

4.2.17 **Expected Outcomes:** The main outcomes expected at end 2013 are: (i) improvement in the execution rate of current expenditure, excluding salaries, in the priority social sectors, which will increase from 80% in 2011 to 90% in 2013; (ii) reduction of public procurement time from 65 days in 2011 to 55 days in 2013.

4.3 Financing Requirements and Arrangements

4.3.1 This budget support operation forms an integral part of the external financing that will contribute to reducing the budgetary deficit of *CFAF 292 billion* over the 2012-2013 period. This will be achieved through domestic financing (bank and non-bank) amounting to *CFAF 17.3 billion* over the same period, and external financing in the amount of *CFAF 274.7 billion* out of *CFAF 292 billion* of mobilizable resources ($17.3+274.7$). Out of the *CFAF*

274.7 billion from external sources, *CFAF* 69 billion will be budget support, of which *CFAF* 23 billion will come from the ADF, representing 33% of budget support and 7.8% of total financing requirements.

Table 4
Financial Requirements and Financing Arrangements

In CFAF Billion	2011 (Estimate)	2012 (Projection)	2013 (Projection)	2012-2013
Total internal revenue, of which	604.2	710.0	784.5	1 494.5
Tax	532.1	631.4	704.2	1335.6
Non-tax	72.1	78.6	80.3	158.9
Total expenditure and net lending, of which:	754.3	845.4	906.3	1 751.7
- Current Expenditure	515.2	588.4	633.4	1 221.8
- Capital expenditure and net lending	239.1	257.0	272.9	529.9
Deficit –Commitment Basis (excl. grants)	-150.1	-135.4	-121.8	-257.2
Change in arrears	-11.6	-17.4	-17.4	34.8
Outstanding payments	-7.8	0.0	0.0	7.8
Deficit – Cash Basis (incl. grants)	-169.5	-152.8	-139.2	292.0
Financing	168.7	152.8	139.2	292.0
Internal Financing	57.2	15.7	1.6	17.3
Net External Financing of which:	111.5	137.1	137.6	274.7
Project Financing	119.1	120.0	129.9	249.9
Amortization	-17.9	-21.9	-23.2	-45.1
Budgetary aid (in grants and loans)	10.3	39.0	30.9	69.9
Financing Gap (-)/Surplus (+)	+0.8	0.0	0.0	0.0

Source: IMF (3rd Review Mission, January 2012).

4.4 Programme Beneficiaries

4.4.1 PAREF seeks to assist the Government in carrying out the activities in its Growth and Poverty Reduction Strategy 2011-2015. The direct beneficiaries are the main administrations in charge of public financial management and the private sector, as well as youths and women involved in income-generating activities under the Self-Employment Support Programme. The indirect beneficiaries are the people of Benin in view of the safeguarding of budgetary allocations to ensure delivery of social services to the most disadvantaged population groups.

4.5 Poverty and Social Impacts, including Gender

4.5.1 The Government is resolutely committed to **promoting gender equality** by adopting, in March 2009, a new national gender promotion policy that falls within the long term perspective of achieving gender equality and equity by 2025. PAREF, which is based on the strategic orientations of the GPRS, will contribute to the advancement of women through modernization of the legal and regulatory framework aimed at boosting the private sector and supporting job creation. In Benin, the involvement of women in economic activities is mainly in the area of informal trade and primary processing of **agricultural** products, as well as catering. However, they lack technical supervision and resources to finance their income-generating activities. The reform measures in the programme, such as the application of a tax system adapted to small and micro enterprises with service delivery and trading turnovers lower than CFAF 40 million, as well as the financing of micro-credits exclusively for women will enhance the growth of businesses owned by women. Furthermore, the strengthening of public financial management to ensure spending efficiency should provide the Government with more resources to increase budgetary allocations to the social sectors (education and

health). This will impact positively on the enrolment of children, particularly girls, in rural areas, as well as the improvement of maternal and child health.

4.6 Climate Change and Environment

4.6.1 The issue of climate change is a cause for concern to the Government since Benin has started recording the effects, particularly following the 1976 and 1984 drought episodes as well as the 2004, 2007 and 2010 floods. With regard to the environment, the two major issues are the increase in carbon dioxide emissions by motorcycle-taxis in the country (*83 tonnes per day*), and coastal erosion. The components and measures defined for PAREF will not contribute to degradation of the situation. On the contrary, greater mobilization of public resources, which is one of the programme objectives, will provide the Government with resources to effectively address these concerns. In accordance with the Bank's procedure for assessing environmental and social impacts, the programme should be classified under Category III.

4.7 Other Impacts of the Programme

4.7.1 **Impacts on Governance:** The Programme measures for strengthening budgetary control, service audit by the Financial Controller, stringent application of public procurement procedures based on the provisions of the new Public Procurement Code and public service delegations, the establishment of an independent Court of Auditors to ensure external scrutiny, as well as the adoption of the decree establishing the Anti-corruption Authority and the start of its activities, are some of the measures that would foster good governance.

4.7.2 **Impacts on the private sector:** One of the two components of the programme focuses on boosting the private sector. Measures such as the streamlining of tax procedures, application of a tax system adapted to small and micro enterprises to help them to operate in the formal sector, the reduction of transaction costs with the regrouping, under a single umbrella, of the various entities providing support to businesses, will contribute to boosting the private sector for wealth and job creation.

V. IMPLEMENTATION, MONITORING AND EVALUATION

5.1 Implementation Arrangements

5.1.1 **Implementation institutional framework:** The Ministry of the Economy and Finance will assume primary responsibility for PAREF implementation. The Technical Executing Agency will be the Economic and Financial Programmes Monitoring Unit (CSPEF), which has already satisfactorily coordinated the implementation of previous budget support operations (PASCRP I to III). It will submit to the Bank: (i) half-yearly progress reports on PAREF; (ii) budget execution reports; and (iii) management accounts as well as audited finance laws.

5.1.2 **Disbursements:** The financing proposed under the programme amounts to *UA 30 million* in the form of a loan. It will be disbursed in two annual tranches: the first in 2012, amounting to *UA 15 million*, from re-allocated resources following cancellation of previous loans in the amount of *UA 7.63 million*, and *UA 7.37 million* from ADF XII resources; the second tranche of *UA 15 million* in 2013, from ADF XII resources. The disbursement of each tranche will be subject to fulfilment of the general and specific conditions precedent indicated below. The disbursements will be in accordance with the provisions of the Protocol Agreement on Budget Support signed in December 2007 between the authorities and the TFPs to a Public Treasury special account opened with the BCEAO Country Branch in Cotonou.

5.1.3 **Procurement of goods and services:** The loan will be in the form of a general budget support operation. Consequently, the procurement of goods and services will be based on national rules and procedures acceptable to the Bank. With the existing legal and regulatory framework, the institutional framework and the management capacity gradually being put in place, the national public procurement system is generally satisfactory, since it is consistent with the relevant WAEMU directives. However, there are still challenges, as indicated in §4.2.11. To that end, the programme contains reform measures aimed at pursuing improvement of the public procurement legal and institutional framework.

5.1.4 **Financial management and audit:** The financial management and audit modalities for the use of PAREF funds have undergone a fiduciary risk management analysis, as detailed in the Technical Annex. Since PAREF resources will be disbursed in accordance with the TFP-JBS Protocol to the Public Treasury special account opened with the BCEAO Country Branch, external auditing of the use of funds will fall within the external scrutiny conducted by the Audit Bench of the Supreme Court. A copy of the Audited Finance Bill will be submitted to the Bank when it is forwarded to the National Assembly.

5.2 Monitoring and Evaluation

5.2.1 **Responsible institution, Monitoring-evaluation of outcomes:** The programme will be monitored primarily in coordination with the TFP-JBS Group. The dialogue with the Government is based on the organization of a joint annual review of the GPRS and the common matrix of measures and performance indicators. PAREF implementation will also be monitored through half-yearly and annual performance reports. In addition, the Bank will undertake mid-term and supervision missions on the Programme.

VI. LEGAL INSTRUMENT AND AUTHORITY

6.1 Legal instrument

To finance the loan with ADF-XII resources, a Loan Agreement will be signed between the ADF and the Republic of Benin. A Letter of Agreement, which will indicate the resources provided as well as the conditions for their disbursement, will be signed between the ADF and the Republic of Benin for the restructured projects.

6.2 Conditions associated with the Bank Group's Intervention

6.2.1 **Effectiveness of the Loan Agreement:** The loan effectiveness shall be subject to fulfilment of the conditions defined in Section 12.1 of the Bank's General Conditions Applicable to Loan Agreements.

6.2.2 **Conditions Precedent to Disbursement of the First Tranche:**

The disbursement of the first tranche of UA 15 million shall be subject to fulfilment of the following conditions:

- (i) Opening of a special account in the name of the Public treasury in the Main BCEAO Branch in Cotonou to receive the loan resources;
- (ii) Preparation of the Terms of Reference of the SME/SMI Development Strategy, with a multi-year action plan (§ 4.2.4). Evidence: A copy of approved Terms of Reference

- (iii) Submission of the 2007, 2008 and 2009 Audited Budget Bills to the National Assembly (§ 4.2.16). Evidence: Forwarding slip and a copy of the audited budget

(iii) Approval, by the Cabinet Meeting, of the new decree on the powers, organization and operation of the ARMP (§4.2.16). Evidence: Decree

6.2.3 *Conditions Precedent to Disbursement of Second Tranche of UA 15 million*

The disbursement of the second tranche shall be subject to: (a) a satisfactory Bank review of the programme implementation during the first year; (b) a satisfactory assessment of the macrocosmic framework based on IMF analyses and publications; and (c) fulfilment of the following specific conditions:

- (i) Adoption of the private sector development strategy, with a multi-year action plan (§4.2.4). Evidence: Approved strategy
- (ii) Establishment of a Trades Certification Institution (§4.2.8). Evidence: Decree establishing the institution; and
- (iii) Adoption of implementing decrees for Law No. 2011-20 of 12 October 2011 on the fight against corruption and related offences in the Republic of Benin (§ 4.2.4). Evidence: Implementing Decrees.

6.3 Compliance with Bank Group Policies

6.3.1 This Programme is consistent with all the relevant Bank Group policies and guidelines, in particular the Bank's policy on programme support operations and the Governance Strategic Guidelines and Action Plan 2008-2012.

VII. RISK MANAGEMENT

Risk	Likelihood	Mitigation Measures
Macroeconomic Instability	Moderate	The main macroeconomic risk is the country's high vulnerability to exogenous shocks. To mitigate this risk , the Government is committed to pursuing the implementation of reforms in the agricultural sector, public finance including the building of debt management capacity, and the financial sector. To that end, the Government signed a new programme on 14 June 2010 with the IMF backed by the ECF. <i>Political and economic trends in Nigeria</i> continue to be a major risk for the country because Nigeria is Benin's main trading partner, as indicated by the impact of the recent reduction of fuel subsidies. This risk will be mitigated with structural reforms and reforms to strengthen the competitiveness of the Autonomous Port of Cotonou.
Fiduciary Risks	Moderate	An assessment of the fiduciary risk by the Bank points to a generally moderate level of fiduciary risk (see Technical Annex 1). Mindful of the challenges, the Government has been implementing the Public Financial Management Improvement Action Plan. Consequently, the programme contains specific reform measures to mitigate the risks identified.
Weak Reform Capacity	Moderate	The Government's desire to pursue reforms and the various institutional support programmes that have been implemented help to mitigate this risk. The support project for public financial management and improvement of the business climate launched in February 2011 will contribute to enhancing the capacity of the main institutions in charge of the programme implementation.

VIII. RECOMMENDATION

8.1 In light of the foregoing, it is recommended that the Board of Directors should approve a loan not exceeding UA 30 million, including the reallocated balance of the cancelled project loan (Education-IV), to the Government of the Republic of Benin to implement the Programme, subject to fulfilment of the conditions stipulated in this report.

REPUBLIC OF BENIN
Fraternity-Justice-Work

MINISTRY OF THE ECONOMY AND FINANCE

LETTER OF DEVELOPMENT POLICY

MAY 2012

Cotonou,

Honourable Jonas A. GBIAN
Minister of the Economy and Finance
Cotonou

Dr. Donald KABERUKA
President of the African Development Bank
Tunis

Subject: Letter of Development Policy

Mr. President,

1. In pursuance of its poverty reduction efforts, the Government in March 2011, following a participatory process, adopted a new generation Growth and Poverty Reduction Strategy (GPRS) 2011-2015 whose priority areas are: (i) accelerated sustainable growth and economic transformation; (ii) infrastructure development; (iii) strengthening of human capital; (iv) promotion of good governance; and (v) balanced and sustainable regional development. The strategy seeks to operationalize the Development Strategic Orientations (OSD), which are based on the Development Vision 2025. To implement this strategy, sector plans and policies in line with these priority areas were formulated; these include the Three-Year Growth Recovery Plan, the Public Financial Management Improvement Action Plan, the Energy and Transport Infrastructure Development Programme, and the Agriculture Sector Recovery Strategic Plan. The Government is aware that to guarantee successful implementation of the new strategy, it would be necessary to pursue public financial management reform measures so as to increase the Government's capacity to improve the delivery of social services and boost the private sector to enable it to create more wealth and jobs in the country.

2. This Letter of Development Policy outlines the progress made over the past few years by Benin on the economic and social fronts in the implementation of the Government's agenda, and reviews the social context and recent economic trends. Subsequently, it presents the reform policies the Government intends to implement in the medium term to strengthen economic and financial governance and create conditions for inclusive economic growth driven by the private sector and job creation. The Government is requesting assistance from the African Development Fund to support its reform agenda for the 2012-2013 period.

Context and Recent Economic Trends

3. The country's economic recovery continued in 2011, albeit at a less than expected pace, with real GDP growth of 3.1% up from the 2.6% recorded in 2010. This recovery of economic activity occurred within a context of controlled consumer prices resulting in an inflation rate of 2.7%, which is below the WAEMU community ceiling of 3%.

4. The economic and financial programme signed with the IMF was satisfactorily implemented throughout the year, and all the benchmarks were met in March and September

2011. However, two of the three indicative objectives were not met in September and December 2011; these were the levels of tax revenue and execution of priority spending. The under-performance in the mobilization of tax revenue mainly stemmed from difficulties with customs duties as users were reluctant to comply with the new-generation Imports Verification Programme (PVI). Concerning the level of execution of priority spending, the poor performance was due to lack of familiarity with budgetary execution procedures and the doubtful nature of the expenditures selected.

5. The economic outlook points to a continued moderate economic recovery rate (3.5% in 2012) within a context of resurgence of inflationary tensions due to the rising price of fuel fraudulently imported from Nigeria (inflation rate: 6%). Public revenue mobilization has been aligned with the forecasts contained in the economic and financial programme. Similarly, steps have been taken (in particular, enhanced monitoring) to align priority spending execution with the profile in the budget programme for the Economic and Financial Programme.

Reform Policies

6. The reforms contained in the 2012-2013 Programme for which the Government is soliciting ADF's support has two components: (i) Boosting of the private sector and support for employment Support, and (ii) Strengthening of internal resource mobilization and Public Expenditure Efficiency. As regards boosting the private sector and support for employment, the Government aims to improve the business environment and develop enterprises so as to foster employment. Aware of the need to promote strong and sustained economic growth for wealth and job creation, the Government included this measure in the priority interventions outlined in the Growth and Poverty Reduction Strategy. Consistent with this orientation, the Government has opted to intensify its efforts in improving the business climate and promoting industry and small and medium enterprises (SME). To this end, several steps have been taken to simplify processes and reduce business operators' costs; these include: (i) establishment of a One-Stop Shop at Cotonou Port; (ii) reducing to 3 days the time taken to issue the unique tax identification number (UTIN); (iii) reducing the professional trader card (CPC) and the importer card fees to CFAF 5,000; (iv) creating a special window for enterprises at the National Water Corporation of Benin, the National Electric Energy Corporation and *Benin Télécom SA*, as well as the provision of a base stock specifically for them; (v) abolition of the Articles of Association registration fee of CFAF 6,000. With regard to land management, the actions undertaken concern: (i) the conduct of a study on land access conditions and the emergence of an effective liquid and secure real estate market that promotes private sector development; (ii) the adoption of a decree on Lands Policy Declaration in Benin in July 2010; and (iii) the opening of urban land registers. The reform measures for the 2012-2013 period concern: (i) strengthening of the coordination of multiple private sector initiatives undertaken to ensure synergy of actions; (ii) preparation of a real private sector development policy backed by a programme action plan; (iii) adoption of a legal and institutional framework for the Public-Private Partnership approach in the funding of major works for which only governmental input is insufficient; (iv) establishment of a specialized agency for land management with adequate resources to manage government estates and lands. The Government will also take appropriate steps to streamline tax procedures so as to ensure wide dissemination of the major legal and regulatory instruments on taxation.

7. The promotion of sustainable and decent employment is also one of the priority action areas of the Growth and Poverty Reduction Strategy since the Government has opted to direct its

interventions towards: (i) the promotion of self-employment, (ii) the promotion of salaried employment, (iii) development of the informal sector productivity, (iv) improvement of the vocational training system and promotion of information and communication on employment. In line with the above-mentioned vision, several programmes and actions have already been initiated, in particular: (i) creation of temporary jobs through the Salaried Employment Support Programme (PAES) aimed at fostering the pre-integration and integration of youths and women into the Public Administration and, more recently, in private enterprises and entities; (ii) the training of business operators through the Self-Employment Support Programme (PAEI); (iii) revitalization of the National Employment Agency (ANPE); establishment of a National Enterprise and Youth Employment Promotion Fund (FNPEEJ) to help reduce youth unemployment through credit facilitation; (iv) establishment of a National Microfinance Fund that has granted loans to about one million beneficiaries to support their activities. These actions will be pursued, strengthened and integrated into a global vision that is consistent with the development policy. To this end, the Government in October 2011 formulated a new national employment policy with three specific objectives: (i) facilitate access to employment by increasing job opportunities and the employability of young people; (ii) improve the operation of the labour market; (iii) build the human and institutional capacity of the national employment policy. This policy has a National Employment Action Plan covering the 2012-2016 period. Employment challenges to be met are: (i) developing a private sector that generates high value added activities and creates employment; (ii) training geared towards achieving training-employment balance and promoting self-employment. As regards results-based management, the Government undertakes to strengthen actions initiated by: (i) increasing the number of qualifying vocational training centres (with the adoption of inception instruments); (ii) establishing of a Trades Certification Institution in 2013; (iii) giving priority, not later than 2013, to certified trade professionals in the granting of microfinance credits; (iv) defining, by 2013, an adequate monitoring-evaluation mechanism for monitoring the progress made by the fund beneficiaries.

8. Boosting the private sector and supporting employment also need effective supervision by the Government, particularly through strengthening internal resource mobilization and public expenditure efficiency. In making public financial management a priority intervention area of the GPRS, the Government is committed to carrying out reforms to render all the components of the public financial management system efficient. The priority actions concern budget preparation, execution and control, as well as accountability and promotion of a culture of transparency in the management of public affairs. Thus, the Government will strive to improve domestic resource mobilization and enhance the efficiency of public expenditure so as to improve pro-poor social services delivery.

9. As regards domestic resource mobilization to offset its inadequate capacity, the Government in 2009 started to modernize the tax administration. The main reforms concern: (i) formulation of a Public Financial Management System Improvement Action Plan (PAAGFP); (ii) extension of the Unique Tax Identification Number (UTIN) to safeguard tax revenue by widening the tax base in 2010 and 2011; (iii) extension of the SYDONIA++ (ASYCUNDA) system to all customs revenue offices, although the interconnection between the offices is not yet operational; (iv) establishment of interfaces between the UTIN and other management softwares (SYDONIA++, TAKOE, SIGFIP and ASTER); (v) establishment of a One-stop Shop in June 2011 at the Port to cater for import-export activities, and start-up of the new generation Imports Verification Programme (PVI) in July 2011. The Government will pursue domestic revenue mobilization efforts through: (i) the operationalization, in 2012, of the mixed customs-tax squad

responsible for joint controls to strengthen anti-tax evasion and customs fraud efforts (formulation of an annual work programme and periodic activity reports on joint verification tasks); (ii) continued modernization of the legal and regulatory framework of revenue offices through the adoption of the draft Customs Code by the Cabinet Meeting and publication on the websites of the Ministry of Finance and departments concerned with the two codes (Tax and Customs); (iii) interconnection of customs units and centralization of the SYDONIA++ (2012-2013) software.

10. With regard to improving public spending efficiency, the Government confirms its relevant policy guidelines through measures such as: (i) strengthening the public finance legal framework through the transposition in 2013 of new WAEMU guidelines⁷ on public finance based on the programme budget approach in country regulations; (ii) the entry into force, in 2012, of all the implementing decrees of the law on the Public Procurement Code and, in particular, the approval, by the Cabinet Meeting of the new decree on the powers, organization and operation of the Public Procurement Regulatory Authority (ARMP); (iii) the conduct of 2008, 2009 and 2010 public procurement audits in 2013 to allow for an overall and comprehensive assessment of public procurement; (iv) communication of the annual Public Procurement Plan (PPM) to the National Directorate of Public Procurement Control (DNCMP) by the contracting authorities of ministries and institutions without which the procurement documents submitted will not be processed (PPM 2013 before end 2012 for the social sectors, PPM 2014 before end 2013 for all ministries); (v) the strengthening of audit services in 2013 by preparing the annual audit of the service provided by the Financial Controller; (vi) transformation of the Audit Bench of the Supreme Court into a Court of Auditors in 2013 pursuant to WAEMU directives, with the strengthening of human, material and financial resources; (vi) enforcement of the law on the fight against corruption, with the adoption of a decree on the establishment and operationalization of the National Anti-Corruption Authority.

Coordination and Monitoring of the Reform Policy Implementation

11. This programme will be supervised by the Minister of the Economy and Finance, through the Economic Programme Monitoring Unit (CSPEF), in close collaboration with the sector ministries and other entities concerned with the programme's areas of focus. The African Development Bank will also undertake programme reviews. Regular dialogue will be maintained with the Bank in the monitoring of implementation of the proposed measures and actions. The Government undertakes to take all appropriate steps to ensure implementation of the measures and actions outlined above, and reiterates its request to the African Development Fund to put in place the relevant financial support.

Jonas A. GBIAN
(Minister of the Economy and Finance)

⁷ The six new WAEMU guidelines relate to (i) the Public Financial Management Transparency, (ii) Finance Organic law; (iii) General Accounting Regulations; (iv) Government Budgetary Classification, (v) Government Chart of Accounts, (vi) Government's Flow-of-Funds Table (TOFE).

MATRIX OF MEASURES

Sub-Component	Measures Already Taken	Measures to be Taken	Implementation Period	Responsible Entity	Expected Outcomes
COMPONENT A: PRIVATE SECTOR REVITALIZATION AND EMPLOYMENT SUPPORT					
<u>A.1: Improvement of the Business Environment of Enterprises</u>	<ul style="list-style-type: none"> - Establishment of a One-Stop Shop in Cotonou Port; -Reducing to 3 days the time required to issue the unique tax identification number (UTIN); -reduction of the professional trader card (CPC) and importer card fee to CFAF 5,000; -Abolition of the Articles of Association registration fee previously fixed at CFAF 6,000. - Adoption of the decree on Benin's Lands Policy Declaration in July 2010. – Opening of urban land registers. 	1. Preparation and adoption of the Private Sector Development Strategy together with a multi-year action plan	1 st half of 2013	Ministry of Industry, Trade and Promotion of Small and Medium-size Enterprises	<ul style="list-style-type: none"> (i) Definition of a clear Government vision on the various stages of private sector development in the country; (ii) End of the dispersal of entities in charge of the private sector and the reduction of transaction costs; - Better coordination, at governmental level, of multiple initiatives undertaken in all the administrations for the private sector. - A clear legal definition of collaboration between the private sector and the Government in the implementation of major development projects.
		2. Coordination, by the SME Technical Support Unit (CAT), of multiple reform initiatives initiated in the various administrations	2012-2013	- Idem	
		3. Adoption of the legal and institutional framework of the Public-Private partnership, as well as its procedures manual	1 st quarter of 2013	- Ministry of Development and Economic Analysis and Long Term Studies	
		4. Enforcement of Law No. 2011-20 of 12 October 2011 on the Fight Against Corruption and Related Offences with	2012-2013	Ministry of in charge of Justice	

Sub-Component	Measures Already Taken	Measures to be Taken	Implementation Period	Responsible Entity	Expected Outcomes
		the adoption of three implementing decrees namely: decree on the creation, powers, organization and functions of the National Anti-Corruption Authority, decree on the implementation of Sections 3 and 10 of the law and the decree fixing the conditions of special protection granted to whistle blowers, expert witnesses and victims.			
		5. Simplification of tax procedures adapted to micro and small enterprises and posting of main tax regulations on the website of the Ministry of the Economy and Finance	1 st quarter 2013	- Ministry of Environment , Housing and Town Planning - Ministry of Economy and Finance Id	- Greater public access to current tax regulations. - Restructuring of microfinance sector
		6. Enforcement of Law No. 2012-14 of 26 January 2012 on Regulation of Decentralized Financial Systems	1 st quarter 2013	Ministry of the Economy and Finance (DGID)	- Development of urban and rural lands along with their registration and facilitation of the issuing of land titles that could be mortgaged for bank loans
		7. Adoption, by the Cabinet Meeting, of the decree on the powers, organization and operation of the National Lands and Estates Agency	4 th quarter of 2012	Ministry of the Economy and Finance and the Ministry in charge of Microfinance	
		8. Take appropriate steps for the start of agency's activities			
A.2: Support for Employment Promotion	- Creation of temporary jobs through the Salaried Employment	9. Increase in the number of qualifying training centres (adoption of	2012-2013	Ministry of Secondary Education, Technical and Vocational	- Increase in the number of qualifying training centres to meet economic needs

Sub-Component	Measures Already Taken	Measures to be Taken	Implementation Period	Responsible Entity	Expected Outcomes
	Support Programme (PAES) to foster the pre-integration and integration of youths and women into the Public Administration and, more recently, into private enterprises and entities; - Training of business operators through the Self Employment Support Programme (PAEI); - Establishment of a National Enterprise Promotion and Youth Employment Fund (FNPEEJ); - Creation of a national micro-finance fund (FNM). - Preparation of a new National Employment Policy in October 2011 together with a National Employment Action Plan for the 2012-2016 period.	inception instruments)		Training, Reconversion and Integration of Youths	- Trades development
		10. Establishment of a Trades Certification Institution	2013	Idem	- Increased support for craftsmen and tradesmen to facilitate their integration into the formal sector
		11. Giving priority to certified trade professionals in the granting of loans and making the trade certificate one of the eligibility criteria for National Enterprise Promotion and Youth Employment Fund	2013	Ministry of Micro-finance and Microfinance Institutions	- Monitoring of the development of the beneficiaries of micro-credits and other self-employment support funding
		12. Establishment of an adequate monitoring-evaluation mechanism to track the development of the fund beneficiaries and their integration into the formal sector	2013	Ministry of Micro-finance and Youth and Women's Employment	
COMPONENT B: STRENGTHENING OF DOMESTIC RESOURCE MOBILIZATION AND PUBLIC EXPENDITURE EFFICIENCY					
Sub-component B.1: Improving Internal Revenue Mobilization	- Preparation of Public Financial Management Improvement Action Plan (PAAGFP) taking into account the "Revenue" component ; - - - - - Extension of Unique Tax Identification Number in 2010 and 2011; - Extension of SYDONIA++ to all the customs revenue offices - Establishment of interfaces between UTIN and other management softwares; - Establishment of a One-Stop Shop in the Port for import-export operations and - - - - - start in July 2011 of the new generation Imports Verification Programme	13. Setting up of Mixed Customs/Tax Control Squad and start of activities to combat tax fraud and evasion more effectively (work programmes and activity report on joint economic verification		Ministry of Economy and Finance	- Substantial reduction of fraud ;
		14. Extension of UTIN to other natural and legal persons through sensitization campaigns	2012-2013	Idem	- Increase in tax revenue thanks to broadening of the tax base
		15. Adoption, in Cabinet Meeting, of the decree transmitting the draft Customs Code to the	2012-2013	Idem	- More access to tax regulations by users and economic operators

Sub-Component	Measures Already Taken	Measures to be Taken	Implementation Period	Responsible Entity	Expected Outcomes	
	(PVI).	National Assembly			<ul style="list-style-type: none"> - Strengthening of customs service operational capacity - Better customs receipts returns; - Consistency with WAEMU community guidelines and strengthening of sub-regional integration. 	
		16. Interconnection of Customs and Units and centralization of the SYDONIA++ software	2012-2013	Idem (General Directorate of Customs)		
		17. Taking appropriate steps to pursue implementation of the PVI, where necessary, with a review of implementation modalities of specific services of the programme and relaxing of the tariffs in force so as to safeguard the competitiveness of Cotonou Port in comparison to other ports in the sub-region.		Ministry of the Economy and Finance		
		18. Institution of a tax system for small and micro enterprises	2013	General Directorate of Taxation		
Sub-component B.2: Strengthening of Public Expenditure Efficiency	<ul style="list-style-type: none"> - Establishment of the Integrated Public Financial Management System and ASTER (accounting). What remains is the interconnection with other management software, particularly in revenue offices (Customs and Taxes). - Establishment of ARMP, DNCMP, and contracting authorities in the ministries and institutions; - Training of the staff of these new entities. – - Discussions are under way for the creation of a Court of Auditors in accordance with the 	19 Transposition of the new WAEMU directives on public finance into national regulations of Benin based on the programme-budget	2012	Idem	-	
		20. Entry into force of all the implementing decrees of the law on the Public Procurement Code and particularly the approval, by the Cabinet Meeting, of the new decree on the powers, organization and operation of the ARMP	2012	Idem		- Strengthening of the public procurement system
		21. Auditing of 2008, 2009 and 2010 public	2013	Idem (Public Procurement Regulatory		

Sub-Component	Measures Already Taken	Measures to be Taken	Implementation Period	Responsible Entity	Expected Outcomes
	relevant WAEMU directives.	procurement to allow for global and comprehensive assessment of public contracts		Authority)	idem
		22. Communication to the DNCMP of the Annual Public Procurement Plan by the contracting authorities of ministries and institutions without which the procurement documents submitted will not be processed (PPM 2013 before end 2012 for social sectors and PPM 2014 before end 2013 for all ministries)	2012-2013	All ministries	-Enhancement of public spending effectiveness
		23 Strengthening of auditing services through preparation of the annual report on audit services by Financial Controller	2012-2013	Ministry of the Economy and Finance	- Enhancement of good management practices
		24. Transformation of the Audit bench of the Supreme Court into a Court of Auditors pursuant to the WAEMU directives together with the strengthening of its human, material and financial resources	2013	Office of the President of the Republic	-A legal framework for external auditing of public finance in accordance with WAEMU directives
		25. Submission of the 2007, 2008 and 2009 audited budget bills to the National Assembly	2012	Ministry of the Economy and Finance	- Compliance with public finance accountability requirement

Major Donor Intervention Areas

	ADB	European Union	World Bank	IMF
Improvement of Customs Revenue Mobilization (Customs)	•	•		•
Improvement of Tax Revenue Mobilization (Taxation)	•	•		•
Financial Sector				•
Private Sector	•			
Fight Against Corruption	•		•	
Support for Decentralization			•	
Budget Execution		•	•	
Administrative Reforms		•	•	•
Employment Support	•	•		
Land Reform Support	•			
Cotton Industry Reforms			•	
Public Reforms		•		
Improvement of Account Auditing	•	•		
Social Services		•		

Relations with the International Monetary Fund

IMF Executive Board Completes Third Review under Benin's Extended Credit Facility Arrangement and Approves US\$16.4 Million Disbursement

Press Release No. 12/105
March 27, 2012

The Executive Board of the International Monetary Fund (IMF) has completed the third review of Benin's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.¹ The Board's decision, which was taken on a lapse-of-time basis and enters into effect today,² enables the immediate disbursement of an amount equivalent to SDR 10.61million (about US\$16.4 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 42.45 million (about US\$ 65.7 million).

The Executive Board approved Benin's three-year ECF arrangement for SDR 74.28 million (about US\$115 million) on June 14, 2010 (see [Press Release No. 10/243](#)).

Growth is projected to continue on a modest upward trend in 2012, but will be adversely affected by external spillover effects from higher gasoline prices—because of the reduction of fuel subsidies in Nigeria that will dampen domestic demand—and, to a lesser extent, by the ongoing global crisis. Inflation is expected to increase sharply in 2012, but the West African Economic and Monetary Union (WAEMU) convergence criterion may still be within reach in the medium term, if second-round inflationary pressures are contained.

Performance under the program was broadly satisfactory during the third review period, and the end-September performance criteria were met. The revenue target, however, was missed because of an underperformance of customs revenue owing to resistance to customs reform. The authorities implemented measures to strengthen revenue performance, and customs revenue began to recover in December 2011. Sustaining the increase of customs revenue over the medium term is critical for implementing the authorities' program. The priority social spending target was also missed because of technical and administrative difficulties, indicating a need to intensify their monitoring.

Long-awaited customs reforms were introduced, but a stronger implementation of the structural reform agenda is needed, *inter alia* to enhance revenue collection and fiscal sustainability. The structural reform agenda includes further customs and tax reforms, civil service reform, and the promotion of greater private sector involvement in the energy sector—all of which would foster higher growth.

The authorities committed to maintaining the wage bill within the program envelope and to adopt wage policy decisions in the framework of civil service reform.

The financial sector has been resilient, but banks' loan portfolio deteriorated and a few small banks do not meet strengthened capital requirements. This highlights the need for greater vigilance by the supervisory body to strengthen the soundness of the banking system.

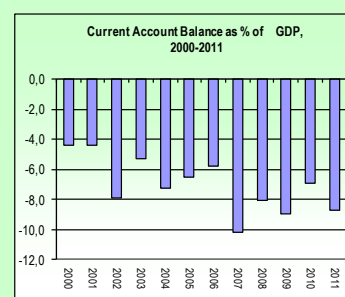
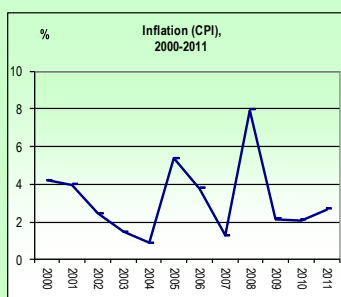
¹ The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (<http://www.imf.org/external/np/exr/facts/ecf.htm>). The Fund reviews the level of interest rates for all concessional facilities every two years.

² The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Macroeconomic Indicators

Benin Selected Macroeconomic Indicators

Indicators	Unit	2000	2006	2007	2008	2009	2010	2011 (e)
National Accounts								
GNI at Current Prices	Million US \$	2 412	4 644	5 111	6 100	6 709	6 903	...
GNI per Capita	US\$	370	590	630	730	780	780	...
GDP at Current Prices	Million US \$	2 360	4 703	5 512	6 648	6 601	6 566	7 504
GDP at 2000 Constant prices	Million US \$	2 360	2 993	3 132	3 289	3 377	3 463	3 566
Real GDP Growth Rate	%	4,9	3,8	4,6	5,0	2,7	2,6	3,0
Real per Capita GDP Growth Rate	%	1,9	0,7	1,6	2,0	-0,2	-0,3	0,2
Gross Domestic Investment	% GDP	18,7	20,6	20,7	20,7	21,2	21,0	21,6
Public Investment	% GDP	6,4	8,0	8,1	8,2	10,1	9,1	9,5
Private Investment	% GDP	12,2	12,5	12,6	12,5	11,1	11,9	12,2
Gross National Savings	% GDP	14,8	11,1	9,4	10,1	11,9	9,4	10,2
Prices and Money								
Inflation (CPI)	%	4,2	3,8	1,3	7,9	2,2	2,1	2,7
Exchange Rate (Annual Average)	local currency/US\$	712,0	522,9	479,3	447,8	472,2	495,3	471,9
Monetary Growth (M2)	%	26,0	18,0	19,8	26,6	8,0	7,1	8,2
Money and Quasi Money as % of GDP	%	28,6	29,5	32,9	37,0	38,1	39,1	38,9
Government Finance								
Total Revenue and Grants	% GDP	17,5	19,2	23,8	21,3	21,7	20,0	21,3
Total Expenditure and Net Lending	% GDP	19,2	19,7	23,6	23,0	26,0	21,6	21,9
Overall Deficit (-) / Surplus (+)	% GDP	-1,7	-0,5	0,2	-1,7	-4,3	-1,6	-0,6
External Sector								
Exports Volume Growth (Goods)	%	43,2	-48,3	60,4	49,9	-22,0	-19,9	-0,5
Imports Volume Growth (Goods)	%	-6,9	13,2	84,3	26,9	-2,1	-1,1	16,0
Terms of Trade Growth	%	-28,1	73,6	27,1	-9,5	50,2	43,4	0,9
Current Account Balance	Million US \$	-104	-270	-561	-538	-589	-454	-653
Current Account Balance	% GDP	-4,4	-5,7	-10,2	-8,1	-8,9	-6,9	-8,7
External Reserves	months of imports	6,8	6,4	5,1	4,7	4,7	4,2	...
Debt and Financial Flows								
Debt Service	% exports	16,8	177,5	9,4	2,5	3,4	4,1	4,2
External Debt	% GDP	55,9	11,6	12,7	15,6	16,2	17,9	16,5
Net Total Financial Flows	Million US \$	232	392	496	652	649
Net Official Development Assistance	Million US \$	243	399	474	641	682	689	...
Net Foreign Direct Investment	Million US \$	60	53	255	171	135	111	...



Source : AfDB Statistics Department; IMF: World Economic Outlook, April 2012 and International Financial Statistics, April 2012; AfDB Statistics Department: Development Data Portal Database, May 2012. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations

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