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Report No. 81103-BJ

INTERNATIONAL DEVELOPMENT ASSOCIATION  
PROGRAM DOCUMENT  
FOR A PROPOSED DEVELOPMENT POLICY CREDIT  
IN THE AMOUNT OF SDR 13.1 MILLION  
(US\$20 MILLION EQUIVALENT)  
TO THE  
REPUBLIC OF BENIN  
FOR THE  
NINTH POVERTY REDUCTION SUPPORT CREDIT

February 10, 2014

Poverty Reduction and Economic Management 4  
Country Department AF2  
Africa Region

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## GOVERNMENT FISCAL YEAR

January 1 – December 31

## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of January 14, 2014)

Currency Unit = CFA Franc

US\$1.00 = CFAF 480

## Weights and Measures

Metric System

## ABBREVIATION AND ACRONYMS

AAA	Analytic and Advisory Activities
ABERPROFA	Agency for the Promotion of Agricultural Commodities
AFRITAC	Africa Regional Technical Assistance Center
AIC	Inter-professional Cotton Association ( <i>Association Interprofessionnelle de Coton</i> )
ANLC	National Anti-Corruption Authority ( <i>Autorité Nationale de Lutte contre la Corruption</i> )
ASTER	Accounting Software
BCEAO	Central Bank of West African States ( <i>Banque Centrale des Etats de l'Afrique de l'Ouest</i> )
CARDER	Regional Center for Rural Development ( <i>Centre Agricole régionale pour le développement rurale</i> )
CATT	Customs Assessment Trade Toolkit
CEM	Country Economic Memorandum
CFAF	West African CFA Franc
CGA	Certified Management and Accounting Center ( <i>Centre de Gestion Agréé</i> )
CIGOP	Competitiveness and Integrated Growth Opportunity Project
CPS	Country Partnership Strategy
CSPEF	Monitoring Unit for Economic and Financial Programs ( <i>Cellule de Suivi des Programmes Economiques et Financiers</i> )
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ESW	Economic and Sector Work
EU	European Union
FADEC	Community-Development Support Fund ( <i>Fonds d'Appui au Développement des Communes</i> )
FDI	Foreign Direct Investment
FM	Financial Management
FNDA	National Agricultural Development Fund
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IAD	Income and Asset Disclosure
ICA	Investment Climate Assessment
ICC	Investment Climate Council
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Financial Corporation
IMF	International Monetary Fund
INSAE	National Statistics and Economic Analysis Institute ( <i>Institut National de la</i>

	<i>Statistique et de l'Analyse Economique)</i>
LOLF	Organic Law on Financial Legislation ( <i>Loi Organique relative aux Lois de Finances</i> )
NBE	Budget Nomenclature
PCE	Public Accounting Plan
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Public-Private Partnership
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PVI	Imports Verification Program (Programme de Vérification des Importations)
PSRSA	Strategic Program for the Reform of the Agricultural Sector ( <i>Plan Stratégique de Relance du Secteur Agricole</i> )
RCCM	Registry of Commerce and Credit (Registre du Commerce et du Crédit Mobilier)
SCRP	Growth for Poverty Reduction Strategy ( <i>Stratégie de Croissance pour la Réduction de la Pauvreté</i> )
SDR	Special Drawing Rights
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises
TA	Technical Assistance
TOFE	Government's Financial Operation Table ( <i>Tableau des Opérations Financières de l'Etat</i> )
WAEMU	West African Economic and Monetary Union
WARCIP	West Africa Communications Infrastructure Program
WATH	West Africa Trade Hub
WB	World Bank
WBI	World Bank Institute

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**REPUBLIC OF BENIN**  
**NINTH POVERTY REDUCTION SUPPORT CREDIT (PRSC 9)**

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## SUMMARY OF PROPOSED CREDIT AND PROGRAM

### REPUBLIC OF BENIN

#### NINTH POVERTY REDUCTION SUPPORT CREDIT

<b>Borrower</b>	Republic of Benin.
<b>Implementing Agency:</b>	The Ministry of Economy and Finance.
<b>Financing Data:</b>	IDA Credit Amount: SDR 13.1 million (US\$20 million equivalent). Standard IDA terms: 40-year maturity with a 10-year grace period; single tranche.
<b>Operation Type:</b>	This Development Policy Credit is the first in a programmatic series of three operations, PRSCs 9 through 11.
<b>Pillars of the Operation and Program Development Objectives:</b>	<p>The pillars and program development objectives of this PRSC series are:</p> <ul style="list-style-type: none"> <li>(i) Promoting good governance and high-quality public financial management; and</li> <li>(ii) Strengthening private-sector competitiveness.</li> </ul>
<b>Results Indicators:</b>	<p>The indicators are primarily a subset of those presented in the Government's Third Growth for Poverty Reduction Strategy (SCRIP III) for the period 2011-2015 and include:</p> <p>Average payment delay (days): Baseline (2012): 15      target (2017): &lt;15</p> <p>Unallocated percentage of budget: Baseline (2012):            target (2017): &lt;5</p> <p>Exceptional Payment orders (% of total budget): Baseline (2012): 3.18      target (2017): &lt;3</p> <p>Time required to submit national accounts to the Chamber of Accounts (months):      Baseline (2012): 9      target (2017): &lt;6</p> <p>Average public procurement delay (days): Goods            Baseline (2012): 64      target (2017): &lt;50 Services        Baseline (2012): 71      target (2017): &lt;60 Public works    Baseline (2012): 59      target (2017): &lt;60</p> <p>Percentage of required public officials that complete a declaration of assets:            Baseline (2012): 0      target (2017): 95</p> <p>Percentage of asset declarations verified: Baseline (2012): 0      target (2017): TBD (prior to PRSC-10)</p>

	<p>Internal and external audits of customs transactions undertaken: Baseline (2012): No target (2017): Yes</p> <p>Credit registry coverage (%): Baseline (2012): 10.9 target (2017): &gt;20 (of which female %, if avail.)</p> <p>Number of PPP arrangements/contracts entered into: Baseline (2012): 0 target (2017): 6</p> <p>Number of formal registered companies: Baseline (2012): 29,386 target (2017): 35,000</p> <p>Percentage of labor force in salaried employment: Baseline (2012):</p> <table data-bbox="558 687 1115 932"> <tr> <td>Total</td> <td>7.0</td> <td>target (2017):</td> <td>9.0</td> </tr> <tr> <td>Urban (male)</td> <td>24.3</td> <td>target (2017):</td> <td>28.0</td> </tr> <tr> <td>Urban (female)</td> <td>8.7</td> <td>target (2017):</td> <td>11.0</td> </tr> <tr> <td>Urban (youth)</td> <td>15.0</td> <td>target (2017):</td> <td>20.0</td> </tr> <tr> <td>Rural (male)</td> <td>5.1</td> <td>target (2017):</td> <td>7.0</td> </tr> <tr> <td>Rural (female)</td> <td>1.3</td> <td>target (2017):</td> <td>2.5</td> </tr> <tr> <td>Rural (youth)</td> <td>2.6</td> <td>target (2017):</td> <td>4.0</td> </tr> </table> <p>Number specialized agencies operational under new PSRSA: Baseline (2012): 0 target (2017): 4</p> <p>Number of non-cotton agricultural commodities having an inter-professional organization: Baseline 2012: 0 target (2017) : 4</p> <p>Percentage of non-cotton farmers having access to extension services through CARDERS: Baseline 2012: TBD target (2017) : TBD</p> <p>Port of Cotonou dwell time (days): Baseline (2012): 27 target (2017): 5</p> <p>Cost to Export (US\$ per container): Baseline (2012): 1079 target (2017): 10% reduction in real terms</p> <p>Cost to Import (US\$ per container): Baseline (2012): 1549 target (2017): 10% reduction in real terms</p> <p>Number of roadblocks per corridor (WATH data): Baseline (2012): 8 target (2017): 3</p>	Total	7.0	target (2017):	9.0	Urban (male)	24.3	target (2017):	28.0	Urban (female)	8.7	target (2017):	11.0	Urban (youth)	15.0	target (2017):	20.0	Rural (male)	5.1	target (2017):	7.0	Rural (female)	1.3	target (2017):	2.5	Rural (youth)	2.6	target (2017):	4.0
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<b>Overall Risk Rating:</b>	Moderate																												
<b>Operation ID:</b>	P132786																												

**IDA PROGRAM DOCUMENT FOR A  
PROPOSED NINTH POVERTY REDUCTION SUPPORT CREDIT  
TO THE REPUBLIC OF BENIN**

**1. INTRODUCTION**

1.1 **This program document proposes the first operation in a programmatic series of three poverty reduction support credits (PRSCs 9 through 11) to the Republic of Benin and follows two previous stand-alone operations (PRSCs 7 and 8).** The proposed PRSC-9 will be in the amount of SDR 13.1 million (US\$20 million equivalent), disbursed in a single tranche on standard IDA terms. This programmatic series is designed to assist the recipient's efforts to accelerate growth and extend opportunities for equitable growth by addressing key challenges in the areas of governance, public financial management (PFM) and business-climate reform. Its supported actions focus on strengthening the integrity of PFM, improving port performance and facilitating agricultural diversification.

1.2 **Benin is one of the world's least-developed countries, with an annual per capita income of approximately US\$749 in 2012.** Despite moderate GDP growth of between 4 and 5 percent annually over the past two decades, poverty remains widespread. The national headcount poverty rate was estimated at 37.5 percent in 2006, 35.2 percent in 2009 and 36.2 percent in 2011. There are significant regional disparities in poverty rates, and while female-headed households experience lower levels of poverty (28 percent, compared to 38 percent for male-headed households), women continue to suffer from lack of economic opportunity and are underrepresented in politics and in other high-level decision making positions.

1.3 **Benin's economy relies heavily on re-export and transit trade with Nigeria and other neighboring countries, and on agricultural production, cotton in particular.** Informal re-export trade with Nigeria makes up roughly 20 percent of GDP, leaving the economy vulnerable to trade-policy changes or economic downturns in neighboring Nigeria. The agricultural sector accounts for over 30 percent of GDP and provides nearly 70 percent of the country's employment.

1.4 **Benin's economy is characterized by a high degree of informality, with the informal sector representing as much as 75 percent of the total economy.** The country's weak business environment creates strong incentives to engage in arbitrage with Nigeria rather than pursuing productive, value-adding and employment-generating activities in the domestic economy. This slows economic growth and limits diversification.

1.5 **Less than 10 percent of the economically active in Benin are engaged in salaried employment and more than 50 percent of the workforce is under-employed.** On the other hand, the informal economy tends to be highly innovative and entrepreneurial, and where women play a large role – less than 5 percent of economically active women hold salaried employment. As a result, fostering the development and formalization of the informal economy presents a

major opportunity for accelerating and broadening growth, creating more meaningful and stable jobs, and encouraging investment.

**1.6 Achieving its development objectives, including poverty reduction, will require that Benin increasingly capitalizes on its comparative advantage in agriculture and its position as a regional trading center.** Agricultural diversification and improved productivity will be essential not only to raising overall growth rates, but also to reducing regional disparities and narrowing the rural-urban gap in incomes and poverty levels. Due to low productivity levels, agriculture does not currently represent an effective path out of poverty. Results from the Poverty Assessment indicate that while agricultural growth has contributed strongly to overall growth, rising production has been spurred by increases in the amount of land under cultivation and in the share of labor devoted to the sector, rather than by improvements in the marginal productivity of either land or labor. As a result, while production has increased, incomes in the agricultural sector remain low and stagnant. Diversifying production into more valuable crops, focusing more resources on export-oriented crops, and increasing the level of mechanization and the availability of inputs are needed to raise productivity and boost incomes among the large share of the population (especially the poor) involved in agriculture.

**1.7 Similarly, an improved business environment will be necessary to increasingly formalize the economy, create official salaried employment and to fully exploit Benin's geographic position as a gateway to the Nigerian market and to landlocked countries to its north.** Furthermore, a stronger business environment and a more level economic playing field should be especially advantageous to women, as women are most likely to suffer from economic vulnerability associated with the informal sector.

**1.8 A decade ago, Benin was an ambitious and innovative performer and was seen as a model among West African countries.** Economic performance improved markedly post-1989 following political reform, macroeconomic stabilization, trade liberalization, and divestiture of state-owned enterprises. Unfortunately, this performance was not maintained, momentum was lost and a period of reform stagnation set in. As a result, economic growth over the past decade has remained too low for meaningful poverty reduction. More recently, difficulties in the cotton and port sectors and willingness to start a bold reform agenda contributed to the decision to proceed with two standalone operations prior to the proposed PRSC series.

**1.9 Over the past 18 months, President Yayi's government has demonstrated a renewed commitment to pursuing substantive reforms.** The Government has implemented difficult reforms at the Port of Cotonou, undertaken meaningful anticorruption efforts in the public administration, strengthened public financial management systems, especially procurement processes, accelerated reforms to the civil service and taken important steps to improve the business environment. Some of these efforts were met by stiff resistance, though the Government persisted. In sum, the Government has demonstrated considerable resolve in proceeding with its reform agenda, and progress continues to be made across a range of policy areas.

**1.10 While clear progress has been made, public sector capacity remains weak, governance issues persist, the business environment remains far from ideal and bureaucratic costs continue to impose a substantial burden on the private sector.** Given

renewed commitment to substantive reform and improved clarity on the reform agenda, a programmatic series is proposed which seeks to support the Government's ongoing reform efforts in two broad areas:

- (i) Promoting good governance and high-quality public financial management; and
- (ii) Strengthening private-sector competitiveness.

## 2. MACROECONOMIC POLICY FRAMEWORK

### A. RECENT ECONOMIC DEVELOPMENTS

#### *Real Sector*

2.1 **Benin has demonstrated considerable macroeconomic stability in recent years, and the Government has adopted a conservative fiscal stance in response to a number of exogenous food and oil price shocks and the global economic and financial crisis.** Benin's program with the IMF is on track. The Government signed a three-year Extended Credit Facility (ECF) arrangement, which was approved by the IMF Board in June 2010, and is currently in the process of negotiating a subsequent ECF program. ECF reviews have confirmed that Benin has made strong progress under the arrangement. The IMF relations note is attached as Annex 3.

2.2 **Real GDP growth has averaged about 4 percent annually over the past decade, though growth in 2012 increased to 5.4 percent.** Cotton production of 240,000 tons (up from 170,000 tons in 2011)<sup>1</sup>, strong activity at the Port of Cotonou (an 11.8 percent increase) and rising telecommunications and transport sector output (an 8 percent increase) supported this improved performance. While one year is not indicative of a trend, improved growth performance is expected going forward.

2.3 **2013 growth estimates are in the range of 5.0 percent based on continued strength in the cotton sector and agriculture more broadly and consistently improving port performance.** However, ongoing customs reforms at the port and unresolved questions regarding the Government's role in the cotton sector continue to present cause for concern. The Government has reiterated its commitment to pursuing substantive reform in these two key sectors, and provisions have been made in the proposed PRSC series to support its reform agenda.

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<sup>1</sup> Despite strong growth in cotton production in 2012, cotton production remains considerably below peak levels of a decade ago.

**Table 2.1: Key Economic Indicators, 2009-2016**

	-----Actual-----				-----Projections-----			
	2009	2010	2011	2012	2013	2014	2015	2016
	(annual percentage change, unless otherwise indicated)							
Population growth (%)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Real GDP Growth (%)	2.7	2.6	3.5	5.4	5.0	4.8	4.5	4.5
Real GDP per capita growth (%)	-0.8	-0.9	0.0	1.9	1.5	1.3	1.0	1.0
GDP deflator	2.0	1.9	2.5	6.3	3.2	3.0	2.9	2.8
Inflation (CPI, average, %)	2.2	2.1	2.7	6.7	2.8	2.8	2.8	2.8
External Sector (CFA Francs)								
Exports	-1.5	12.8	-6.9	6.0	8.1	7.9	6.8	7.5
Share of cotton exports (% of exports)	19.1	13.7	15.7	18.2	21.6	19.6	17.9	16.6
Imports	1.0	1.3	-5.5	11.8	6.5	6.5	5.2	6.3
Terms of trade(deterioration = negative)			-0.7	1.4	1.1	-0.4	-0.8	-0.4
Money and Credit								
Net domestic assets	7.1	5.2	10.0	4.6	9.3	10.2	9.3	9.5
Domestic Credit	12.5	4.4	12.8	4.4	9.3	10.2	9.3	9.5
Net claims on central government	6.6	-0.9	7.1	-0.6	1.6	2.2	1.7	1.7
Credit to the nongovernment sector	5.9	5.3	5.7	5.0	7.7	8.0	7.6	7.9
Broad Money (M2)	6.2	11.6	9.1	8.9	12.3	13.0	12.9	12.2
	(percent of GDP, unless otherwise indicated)							
National Accounts								
Gross investment	20.8	17.6	18.7	17.7	19.0	19.4	19.5	19.6
Gross government investment	9.7	5.5	6.6	5.6	6.6	6.8	6.8	6.8
Gross private investment	12.1	12.1	12.1	12.4	12.4	12.5	12.7	12.8
Gross domestic savings	7.5	5.2	7.8	5.9	7.6	8.3	8.8	9.2
Government saving	1.5	1.9	2.6	3.4	3.7	3.3	3.4	3.4
Nongovernment saving	6.0	3.3	5.1	2.6	3.9	5.0	5.4	5.8
Gross National Saving	11.9	9.4	10.9	9.3	10.9	11.2	11.7	12.2
Central Government Finance								
Total Revenue	18.5	18.6	17.6	18.7	18.9	18.4	18.6	18.7
Expenditure and net lending	26.0	21.6	21.9	21.1	22.0	21.9	22.0	22.1
Overall fiscal deficit (excl. grants)	-7.5	-3.1	-4.3	-2.4	-3.1	-3.5	-3.4	-3.3
Primary Balance (1)	-7.0	-2.5	-3.9	-1.8	-2.5	-3.0	-2.8	-2.7
External Sector								
Balance of goods and services	-13.3	-11.1	-10.9	-11.8	-11.4	-11.1	-10.7	-10.4
Current account (excl. grants)	-11.2	-8.2	-8.1	-9.3	-9.1	-8.6	-8.1	-7.8
Overall balance of payments	-1.6	0.8	-4.4	-2.8	-0.9	0.6	1.1	0.8
Total Government debt	27.3	30.0	29.3	28.5	27.7	26.5	25.4	24.1
External Debt to GDP	15.5	17.9	17.8	16.6	16.3	16.2	16.0	15.9
Debt service to exports ratio (%)	3.4	3.6	4.5	5.9	6.1	6.2	6.6	6.5

Source: Beninese authorities and IMF staff estimates and projections.

(1) Total revenue minus current primary expenditures, capital expenditures and net lending.

**2.4 Port reform has been a Government priority over the past 12 to 18 months with measurable results being achieved.** As noted above, port traffic increased by nearly 12 percent from 2012-2013, and dwell time at the port has fallen from 30 days to fewer than 10 days during the same period -- thanks to a combination of increased traffic and greater port and customs efficiency. As a result, customs revenue rose by 22 percent in 2012. Going forward the Government is implementing a new framework for verifying the valuation of imports, following the suspension of a previous contract with Benin Control in May 2012. The customs authority has assumed full responsibility for the program, but will contract it over the short term (three years) to international private firms for certain tasks. Customs reform constitutes the core element of Benin's ECF program with the IMF, which is complementary to this operation. Significant improvements in port operations are also underway, particularly regarding traffic management.

**2.5 In April 2012, the Government assumed management of the entire cotton-sector value chain for the 2012/2013 and 2013/14 seasons.** Going forward, the authorities intend to restructure the governance of the cotton sector using a zoning/regional concession model that will allow important private sector involvement. The GoB has requested Bank support in restructuring the cotton sector. Terms of reference are currently being prepared for a comprehensive study to define the parameters of this approach. Cotton production is expected to total 340,000 tons in 2013. Cotton typically represents 15 percent of value-added in Benin and, prior to the dramatic fall in cotton production post-2006, accounted for between 25 and 40 percent of exports.

### *Fiscal Situation*

**2.6 Benin's fiscal stance is improving; the fiscal deficit fell from 4.3 percent of GDP in 2011 to 2.4 percent in 2012 and 3.1 percent in 2013.** The primary fiscal deficit dropped from 3.9 percent in 2011 to 1.8 percent in 2012 and 2.5 percent of GDP in 2013. Total revenue collection, excluding grants, is estimated at 18.9 percent of GDP, slightly below the 19.1 percent originally projected. Fiscal revenue increased in 2013 thanks to a continued rebound in customs revenues. Customs revenue rose from 261 billion West African CFA Francs (CFAF) in 2011 to CFAF 318 billion (8.2 percent of GDP) in 2012 and reached CFAF 356 billion (8.6 percent of GDP) in 2013.

**2.7 On the expenditure side, the Government tightened its policies by keeping the growth of expenditures closely in line with actual revenues.** Authorities continued to control the wage bill by limiting new hiring and resisting wage demands, particularly pressure from the teachers' unions. In July 2011 a payroll census was conducted, which led to the suspension of salary payments for more than 1,000 civil servants. Harmonization of human-resource databases with the salary system continued through 2013, leading to further wage-bill savings. Public investment recovered to 6.8 percent of GDP in 2012, thanks to improving revenues, better wage bill control and hence additional fiscal space. Execution rates for priority social expenditures rose from 75 percent in 2011 to 103 percent in 2012. This followed the implementation of an improved monitoring system and greater attention to the execution of priority social spending.

**Table 2.2: Key Fiscal Indicators, 2009-2016 (% of GDP)**

	-----Actual-----				-----Projections-----			
	2009	2010	2011	2012	2013	2014	2015	2016
<b>Total Revenue</b>	18.5	18.6	17.6	18.7	18.9	18.4	18.6	18.7
Tax Revenue								
Tax on International Trade	8.3	8.6	7.6	8.2	8.6	8.8	8.9	8.9
Direct and Indirect taxes	7.8	7.6	7.9	7.3	7.5	7.6	7.7	7.8
Non-tax revenue	2.4	2.4	2.1	3.2	2.8	2.0	2.0	2.0
<b>Total Expenditures and net lending</b>	26.0	21.6	21.9	21.1	22.0	21.9	22.0	22.1
Current Expenditures	15.9	15.5	15.0	15.4	15.2	15.1	15.2	15.3
Current primary expenditures	15.4	14.9	14.6	14.6	14.7	14.5	14.5	14.6
Wages	7.3	7.3	7.4	7.2	7.2	7.1	7.1	7.1
Pensions and Scholarships	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.5
Current transfers	3.5	3.5	3.2	3.2	3.3	3.3	3.3	3.3
Goods and Services	3.3	2.8	2.6	2.8	2.7	2.6	2.6	2.6
Interest	0.5	0.5	0.4	0.6	0.6	0.6	0.6	0.7
Capital Expenditure and net lending	10.1	6.1	6.9	5.8	6.8	6.8	6.8	6.8
Capital expenditure	9.7	5.5	6.6	5.6	6.6	6.8	6.8	6.8
Financed by domestic resources	7.1	3.1	3.1	3.4	3.4	3.6	3.6	3.6
Financed by external resources	2.6	2.3	3.5	2.3	3.1	3.2	3.2	3.2
Net lending	0.4	0.6	0.4	0.2	0.2	0.0	0.0	0.0
<b>Overall Balance</b>	-7.5	-3.1	-4.3	-2.4	-3.1	-3.5	-3.4	-3.3
Primary Balance (1)	-7.0	-2.5	-3.9	-1.8	-2.5	-3.0	-2.8	-2.7
Basic Primary Balance (2)	-4.0	0.5	-0.1	0.6	0.8	0.3	0.5	0.6
<b>Overall Balance (cash basis excl. grants)</b>	<b>9.3</b>	<b>3.4</b>	<b>4.8</b>	<b>2.6</b>	<b>3.5</b>	<b>3.9</b>	<b>3.8</b>	<b>3.7</b>
<b>Financing</b>	<b>9.3</b>	<b>3.4</b>	<b>4.8</b>	<b>2.6</b>	<b>3.5</b>	<b>3.9</b>	<b>3.8</b>	<b>3.7</b>
External financing	4.6	3.5	3.2	2.4	3.3	3.2	3.1	3.0
Domestic financing	4.7	0.0	1.6	0.2	0.2	0.8	0.7	0.6

Source: Beninese authorities and IMF staff estimates and projections.

(1) Total revenue minus current primary expenditures, capital expenditures and net lending (payment order basis, excl. grants).

(2) Total revenue minus current primary expenditures and capital expenditures financed by domestic resources (payment order basis, excl. grants).

**2.8 To finance its moderate fiscal deficit the Government has issued treasury bills and bonds in the West African Economic and Monetary Union (WAEMU) monetary market.** This strategy has been supplemented by a relatively small amount of external financing. Overall, debt levels remain moderate with total government debt amounting to 28.5 percent of GDP in 2012, of which external debt is 16.6 percent, and both are on a downward trajectory.

### **External Sector**

**2.9 The balance-of-payments deficit has steadily declined, falling from 4.4 percent in 2011 to 2.8 percent in 2012, and is expected to have reached 0.9 percent in 2013.** The current-account deficit (excluding grants) is estimated at 9.1 percent, comparable to the 9.3 percent deficit in 2012 and marginally higher than the 8.1 percent deficit in 2011. Increased cotton output coupled with a rise in non-traditional exports (cashew) positively impacted export

receipts. In addition, stronger foreign direct investment (FDI) inflows, and an improved financial-account balance (5.7 percent of GDP, up from 2.2 percent in 2012) contributed to reduce the overall balance of payments. The current-account deficit was financed primarily by external assistance (2.4 percent of GDP), as well as FDI (2.5 percent), portfolio investment (1.3 percent), short-term capital (0.5 percent) and remittances (1.6 percent). It should be noted however, that official balance-of-payments and current-account figures can be difficult to interpret due to the very high degree of unrecorded informal cross-border trade in Benin.

### *Money and Banking*

**2.10 As a WAEMU member, Benin's exchange-rate regime is managed at the regional level by the BCEAO.** The CFAF is pegged to the euro. Monetary policies remained prudent in 2012 and 2013 as the BCEAO continued to focus on achieving the WAEMU Stability, Convergence, Growth and Solidarity Pact objectives. Broad-money supply, which represents some 46 percent of GDP, increased by about 12.3 percent in 2013 (following previous increases of 8.9 percent in 2012 and 9.1 percent in 2011) as a modest economic recovery continued. This was further illustrated by a projected acceleration of growth of credit to the private sector from about 6 percent in 2011 and 5.0 percent in 2012 to 7.7 percent in 2013.

### *Inflation and Prices*

**2.11 Inflation has typically remained under the WAEMU target of 3.0 percent and, following an unusual spike of 6.7 percent in 2012 caused by a permanent price shock, inflation returned to 2.8 percent in 2013.** Nigeria reduced all petroleum-product subsidies on January 17, 2012, which raised gas prices in Nigeria by roughly 50 percent. As Benin sources over 85 percent of its gas informally from Nigeria, this led to an immediate 50 percent increase in gas prices in Benin, which drove a rapid increase in inflation. However, inflation has now fallen back to within its normal range at under 3 percent. Future inflation rates will remain sensitive to Nigeria's continued efforts to reduce domestic fuel subsidies.

**2.12 Increased fuel prices not only impact household welfare through rising consumer prices, they may also directly affect income, as many households in Benin are involved in the petroleum-products trade with Nigeria.** Estimates vary widely, but up to 500,000 people may be directly or indirectly involved in this trade. Falling subsidies in Nigeria reduced profit margins, decreased the difference between the official price and the informal 'street' price, and increased competition. Should Nigerian subsidies be cut further, the informal petroleum-products trade could cease altogether, eliminating the numerous livelihoods that depend on it. Meanwhile, additional pressure is being generated by the Government's increasing attempts to control and reduce the informal fuel trade with Nigeria.

## **B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY**

**2.13 The medium-term macroeconomic outlook (2014-16) assumes a steady recovery in economic activity, a generally benign external economic environment and more effective implementation of the Government's reform agenda; given these conditions real GDP growth is projected at 4.8 percent in 2014.** This projection assumes positive developments at the Port of Cotonou and in the agricultural sector, the two key drivers of growth in the real sector

and the focus of this operation. Growth should benefit from strong performance in cotton and non-cotton agricultural production, though given its limited irrigation infrastructure, agricultural performance is highly weather-dependent. Port operations remain a source of risk, although improvements in late 2012 and 2013 have been promising, and reforms enacted in connection with this operation should increase port competitiveness and contribute to economic growth.

**2.14 In order to further accelerate medium- and long-term growth the Government is looking to scale up public investment after several years of relatively low levels of public investment.** Priority investments have been identified with a vision to accelerate, facilitate and leverage related private sector investment and directly support the Government's SCRP III objectives. Priority investments include road, energy, telecommunication, and value-added agricultural processing investments, including many to be pursued on a PPP basis. A Round Table with donor partners and potential private sector investors has been scheduled for June 2014 at which the Government will be seeking pledges and commitments toward a number of these important investment opportunities.

**2.15 Fiscal risks are present, but less significant than in recent years.** Public wage pressures continue, particularly from the teachers' unions. However, the Government has effectively resisted this pressure to date, and with inflation expected to remain below 3 percent over the medium-term, moderate wage pressures should be manageable. Furthermore, the Government has taken several measures, as detailed later in this document, to increase the effectiveness and efficiency of government spending.

**2.16 Risks to revenue performance, although not absent, have been reduced as uncertainty and instability at the Port of Cotonou has been reduced considerably.** Given that the port is responsible for 50 percent of tax revenues and typically represents the country's greatest source of revenue volatility, revenue performance should become increasingly stable and predictable. Nevertheless, certain issues within the customs administration remain, and resistance to planned customs reforms may yet materialize, particularly as efforts to reduce corruption and rent-seeking opportunities progress.

**2.17 The fiscal deficit (excluding grants) is expected to remain around 3.5 percent of GDP in 2014 and 2015.** Past experience has demonstrated the Government's resolve to keep expenditures in line with revenues, and there is no reason to believe this commitment to fiscal responsibility will not continue. If revenues fail to meet expectations, recent successful measures to protect priority social expenditures would likely continue through 2014. Unfortunately, infrastructure investment may continue to bear the brunt of any expenditure cuts, as experienced in 2010 and 2012. This could result in lower medium- and longer-term growth as public investment projects are delayed or cancelled in order to manage the budget. Recent government efforts to improve public investment planning, prioritization and execution should mitigate this risk. In addition, measures to strengthen public procurement should increase the effectiveness and efficiency of public investment spending.

**2.18 The greatest risks to the macroeconomic outlook are external in nature.** There is a close connection between policy events in Nigeria and economic outcomes in Benin. The country's heavy reliance on unofficial re-export trade with Nigeria will continue to make its

growth and fiscal revenues highly vulnerable to policy changes across the border, particularly with respect to trade liberalization, and continues to pose the most significant external risk to its macroeconomic outlook. While policy reform in Nigeria is unlikely to accelerate significantly in the short-term and does not pose an imminent threat, such reform does pose a substantial longer-term risk to Benin. As experienced in 2012, exogenous price shocks could result from a further reduction in Nigerian gas subsidies. Recent efforts by the authorities in Benin to restrict this illegal trade has further reduced the price differential between the formal and informal gas markets, and the formal market has grown in response and assumed a much larger market share. Thus the impact of fuel-price changes caused by subsidy reductions in Nigeria has been moderated somewhat and now poses less inflationary risk than it did in 2012.

**2.19 The Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative programs have helped reduce Benin’s external debt stock from 47 percent of GDP at end-2002 to 16.3 percent currently.** The latest debt sustainability analysis update, from July 2012, confirms that Benin faces a low risk of debt distress. The inclusion of domestic public debt in the debt sustainability analysis (DSA) shows a gradual decrease in all debt indicators owing to the clearance of domestic arrears and the authorities’ prudent borrowing strategy. Admittedly, the large size of the informal sector complicates the DSA as the presence of a large amount of unofficial exports to Nigeria leads to an overestimation of the external current account. All of which nonetheless reinforces the conclusion of a low risk of debt distress.

**2.20 In light of its stable macroeconomic outlook supported by responsible fiscal and debt-management policies, Bank staff consider Benin’s macroeconomic policy framework to provide an adequate basis for the proposed operation.**

### C. IMF RELATIONS

**2.21 Relations with the IMF are strong and constructive.** IMF program-review missions are undertaken as joint Fund/Bank missions, and Bank participation is integral to the review process. Structural benchmarks and performance criteria included in the IMF program are not only coordinated and consistent with PRSC prior actions, but also with investment operations and Analytic and Advisory Activities (AAA). The IMF has been fully consulted in the preparation of the proposed series and has made substantive contributions to its design.

**2.22 The IMF Board approved the fifth review of the ECF for Benin on August 28, 2013.** The review found that macroeconomic performance was strong in 2012 and that the outlook for 2013 was positive. Fiscal policy was judged to be prudent, all program targets were met and the debt to GDP ratio declined. The review determined that the backlog in structural reforms under the program had been addressed and this was headlined by a new approach to customs reform, on which the Bank and the Fund are working closely together with the authorities.

## 3. THE GOVERNMENT’S PROGRAM

**3.1 Benin’s current Growth for Poverty Reduction Strategy (*Stratégie de Croissance pour la Réduction de la Pauvreté – SCRP III*) for 2011-2015 is the country’s third poverty reduction strategy paper (PRSP).** It is designed to consolidate progress achieved under prior PRSPs and reconfirms the Government’s commitment to the objectives set forth in the SCRP II.

The SCRP III not only builds on the successes of its predecessors, but also addresses key constraints and policy failures encountered during the implementation of previous strategies. Its overriding objective is to improve the quality of life in Benin and to place the country firmly on the path to emerging-market status. The SCRP III is organized around five strategic pillars.

**3.2 Pillar 1: Accelerating Economic Growth.** Benin's economic growth rate remains too low to meet the material needs of its people, particularly given the country's rapid population growth. The economy is hindered by its lack of diversification and limited competitiveness. In response the authorities are accelerating reforms to improve the business and investment climate.

**3.3 Pillar 2: Infrastructure Development.** Economic infrastructure links producers to markets, reduces factor costs, improves economic competitiveness and provides essential services, such as potable water, electricity, sanitation services, communications services, and as such, simultaneously improves both economic growth and the quality of life. In Benin the Port of Cotonou represents both a major asset, as it provides a natural trade gateway to landlocked countries to the north, and a serious liability, as the economy is structurally sensitive to any shock affecting its primary connection to world markets. Five priority infrastructure types are identified under Pillar 2: (i) transportation infrastructure; (ii) energy; (iii) information and communication technology; (iv) water and sanitation; and (v) housing and urban development.

**3.4 Pillar 3: Strengthening Human Capital and Social Protection.** Despite progress achieved during the implementation of SCRP I and II, Benin's social indicators remain among the lowest in the world. The Government recognizes the need to strengthen human capital not only as a matter of public welfare, but also as a fundamental prerequisite for sustaining medium- and long-term economic growth.

**3.5 Pillar 4: Promoting Good Governance.** Good governance is essential to the success of the SCRP III's objectives. Benin's development is severely hindered by the lack of an enabling private-sector environment, the inadequate quality of public financial management, and the limited effectiveness of public programs and essential services. The government has stated its commitment to good governance and public-sector reform, and the SCRP III advances the country's ongoing reform agenda.

**3.6 Pillar 5: Fostering Balanced and Sustainable Regional Development.** Given Benin's high and rising regional disparities, achieving the objectives of the SCRP III will require more balanced development across different areas of the country. The strategy seeks to cultivate local resources and reduce spatial inequalities in the provision of infrastructure and services, through a program of administrative decentralization, targeted regional development, and enhanced environmental protection.

## **4. THE PROPOSED NINTH POVERTY REDUCTION SUPPORT CREDIT**

### **A. LINKS TO THE GOVERNMENT’S PROGRAM AND OPERATION DESCRIPTION**

**4.1 In line with the goals of the third SCRP, the overarching goal of the proposed PRSC series is to boost real economic growth, reduce poverty and increase opportunities for equitable growth.** The PRSC-9 will focus its support on two critical objectives:

- (i) Promoting good governance and high-quality public financial management; and
- (ii) Strengthening private-sector competitiveness.

**4.2 The first objective of the proposed operation supports specific measures to improve PFM in the context of a broader effort to promote good governance and public-sector accountability, which is fully in line with SCRP III’s Pillar 4.** Accordingly, the operation focuses on PFM reforms, especially in the areas of budget execution and public procurement processes, while also supporting the Government’s larger good-governance and anticorruption efforts.

**4.3 The second objective of the proposed operation supports measures aimed at strengthening private-sector competitiveness, in line with the specific objectives of SCRP’s Pillar 1.** The operation focuses on measures aimed at enhancing the business environment, improving port operations and customs performance, and fostering agricultural growth and diversification.

**4.4 The operation will directly support implementation of the SCRP III by focusing on the Government’s stated priorities and building on past PRSC operations.** It seeks to create a healthy, competitive business environment conducive to investment in the country’s most promising sectors. Removing administrative barriers to investment and formalization, reducing transaction costs, alleviating infrastructure bottlenecks, and leveling the playing field by minimizing distortive policies and interventions are all essential to facilitating the structural transformation of the economy and permanently raising Benin’s growth trajectory.

**4.5 Effective and efficient delivery of government services and sound management of scarce public resources is central to meeting these goals and advancing the broader SCRP III reform agenda.** The role of government in fostering economic growth is not only to provide a suitable enabling environment, in which the private sector can prosper; it is also to deliver effective public services that maximize the impact of available revenues. Strong governance and responsible PFM grounded in a commitment to transparency and accountability are critical to ensuring that prosperity is widely shared and that growth is closely linked to poverty reduction.

### ***Lessons Learned***

**4.6 PRSG-7 and PRSC-8 laid the foundation for this programmatic series by supporting key measures toward improved public financial management, strengthened governance and increased competitiveness, particularly in agriculture and at the port.** Specifically, PRSG-7 supported submission and passage of the new Budget Framework Law

(LOLF), approval of key procurement regulations (decrees), the adoption of a Code of Value and Ethics in the Public Service, the adoption and promulgation of an anti-corruption law, and the adoption of a new agriculture development strategy. PRSC-8 followed with the creation of necessary public procurement agencies, adoption of the remaining procurement regulations, and passage of key anti-corruption regulations necessary for implementation of the new anti-corruption law.

4.7 **A number of important lessons can be drawn from Benin's previous PRSCs.** This proposed series consolidates and builds upon the reforms launched under the PRSG-7 and PRSC-8, and is informed by the following lessons learned during these operations:

- **Policy actions are often not enough to affect significant and sustainable change.** While policy actions are necessary to create an environment conducive to change, additional enabling interventions are also frequently required. In past PRSC operations, greater impact was achieved by concentrating prior actions in areas that were already the focus of Bank investment or technical assistance (TA) operations, or complementary donor activities aligned with the PRSC. The proposed series incorporates this lesson by targeting its support to areas in which the Bank and other donors are already involved.
- **PRSC support can be more effective if the series supports a deep reform agenda rather than a broad one.** Focusing on a narrow range of key policy measures, along with carefully selected complementary actions related to implementation or to laying the groundwork for second-generation reforms, yields greater results than expanding the supported reform agenda to new policy areas. The proposed series concentrates on a few critical areas, and its prior actions and triggers directly support the continued implementation of reforms commenced under PRSG-7 and PRSC-8.
- **Resistance to change and administrative capacity limitations should not be underestimated.** Selectivity and simplicity in program design are essential to success, as is realism regarding the scope and pace of reform. Setbacks and reversals can be expected. Progress is not always linear, and local realities must be fully understood and incorporated into reform plans and expectations. For example, with regard to its Poverty Reduction Support Credits, IEG (Independent Evaluation Group) noted the slow progress on governance, especially procurement and PFM reforms. In this regard, the proposed operation includes three prior actions that strongly advance procurement reforms. Difficulties in the implementation of port reforms and the need to present the PRSG-7 and PRSC-8 as standalone operations offer a clear illustration of this phenomenon, which has led to a more meaningful and robust program of reforms in the present operation.
- **Finally, the operation's stated objectives and monitored results indicators must be realistic, focused on measures that are directly attributable to supported actions and consistent over time.** Prior PRSC series in Benin included results indicators that did not always have a clear causal link to specific supported actions, and in some cases exogenous factors had a considerable influence on their success or failure. This was confirmed by IEG comments that indicators included in previous series were on occasion too far removed from supported actions and attribution was therefore difficult. In addition, indicators were

often changed from one operation to the next, which did not allow for the tracking of long-term progress. Indicators included in PRSC-9 and subsequent operations, while they build on some of the indicators used in the PRSG-7 and PRSC-8, are reduced in number and are more directly linked to supported actions.

## B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.8 This section details the proposed operation’s prior actions, triggers, indicators and expected results, as well as its analytical underpinnings.

### Axis 1: Good Governance and High-Quality Public Financial Management

#### *Budget Execution*

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>AXIS 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT</b>		
<b>BUDGET EXECUTION</b>		
	Adoption of the Transparency Code Directive.	Public dissemination of budget/public finance information in accordance with Chapter VI of the Transparency Code Directive.
	The adoption of the decrees necessary for enactment and implementation of the Guidelines for the General Rules of Public Accounting, Budget Nomenclature (NBE), the Public Accounting Plan (PCE), and the TOFE.	Updating of existing financial software applications to make them compatible with the new harmonized public finance framework, including the LOLF, NBE and PCE.
<b>Average payment delay (days):</b>	Baseline (2012): 15	target (2017): <15
<b>Unallocated percentage of budget:</b>	Baseline (2012): 12	target (2017): <5
<b>Exceptional Payment orders (% of total budget):</b>	Baseline (2012): 3.18	target (2017): <3
<b>Time required to submit national accounts to the Chamber of Accounts (months):</b>	Baseline (2012): 9	target (2017): <6
<b>Analytical Underpinnings:</b>		
2013 SCRP Annual Performance Report	2013 Policy Note on Broadening the Tax Base	
2012 SCRP Annual Performance Report	2012 PEFA Self-Assessment	
2012 Public Remuneration Study (Netherlands)	2012 Civil Service Reform Stocktaking and Strategy (Denmark)	
2011 Analysis of Central Financial Agencies	2010 Public Expenditure Review	
Progress Reports on the PFM Action Plan	2007 PEFA	
2009 Action Plan for Improving Public Financial Management 2009-2013		
<b>Complementary Bank Operations and TA:</b>		
Community Driven Decentralized Services		Wage Bill TA (FY14)
FM and Public Investment Capacity Building/TA Project (FY15)		Decentralized CDD Project Phase 2 (FY17)

4.9 **The 2012 PFM self-assessment based on the PEFA methodology and the 2010 Public Expenditure Review (PER) indicate that PFM in Benin has shown some modest improvement.** Recent progress has stemmed from (i) reforms to institutionalize program budgets, including procedures for their preparation, implementation and control; (ii) the computerization of budget execution, accounting and reporting; (iii) measures to strengthen the

design and implementation of procurement reforms; and (iv) improvements in internal budget controls. However, challenges remain in improving budget credibility and the quality of public spending, as well as streamlining budget execution, improving financial reporting, and strengthening overall financial accountability and procurement processes. Hence the focus in this series on budget execution and procurement.

**4.10 The new Organic Law on Financial Legislation (*Loi Organique relative aux Lois de Finances – LOLF*) was introduced to the National Assembly on October 24, 2012 and became law on September 27, 2013.** The preparation and submission of the LOLF were supported as prior actions of the PRSG-7. The new law incorporates the 2009 WAEMU directives, introduces major PFM reforms and establishes a new legal and institutional budget framework. Nevertheless, full implementation will require significant time and effort.

**4.11 An action plan for implementing the LOLF and the new budget framework has been drafted and approved.** However, this will be a medium- to long-term process that requires considerable administrative capacity, and the action plan needs to be improved. As such, implementation will proceed over a number of years and will require TA and capacity-building support from the Bank and the donor community. To accommodate the time and TA required, no prior actions in the area of budget execution are supported under PRSC 9. Rather, the proposed PRSC series will support the implementation of the new budget legislation over the course of multiple operations, while a planned investment operation, together with other donor interventions, will provide supportive technical assistance and capacity building to ensure that the law is made effective in practice.

**4.12 Like the LOLF, the application of the Transparency Code is a WAEMU directive; it complements the LOLF and other WAEMU instruments in harmonizing the legal, accounting and statistical frameworks governing public finance.** The Transparency Code further consolidates the gains made by WAEMU member states, including Benin, during the last decade of fiscal consolidation. It also represents a major contribution to good governance and reinforces the other governance measures supported by this series. The Transparency Code will help hold government agencies more accountable in meeting their obligations and financial responsibilities. It will raise awareness of the Government's macroeconomic, fiscal and PFM policies and promote greater adherence to these policies through stronger oversight. Progress in drafting the necessary texts is being made and adoption over the coming months is expected (trigger for PRSC-10).

**4.13 Both the 2007 PEFA and 2012 PFM self-assessment noted that internal and external oversight institutions were among the main weaknesses in Benin's PFM system.** Some progress has been made on reinforcing the status and effectiveness of the general inspectorates and in coordinating their programs to avoid duplication. However, little has been done to develop risk-based audit work plans in order to focus efforts on priority objectives. Furthermore, internal audit mechanisms are not fully operational in all central government entities, and ministerial inspectorate units remain weak because of their poorly defined legal status and limited capacity. Enacting the Transparency Code will ensure legal implementation of the necessary oversight framework, will require compliance and should shorten the time required to finalize, submit and publish annual national accounts.

4.14 **The decrees listed as triggers for the prospective PRSC-10 concerning public accounting, budget nomenclature, the public accounting plan and the TOFE are critical to render the new LOLF effective and ensure its full implementation.** The new budget-framework law requires new accounting rules and a new budget nomenclature in line with WAEMU directives. The specified decrees would mandate the adoption of these new systems.

4.15 **The trigger for the PRSC-11 requiring the updating of necessary expenditure-chain software would ensure that the new systems are up and running.** Past experience has shown that the passage of legislation and approval of decrees and regulations are often insufficient to ensure the effective implementation of policies. While the legislative and regulatory frameworks are necessary, these actions and triggers are intended to follow the reform process from the legislative level (PRSC-8) to the regulatory level (PRSC-10) to full implementation and functionality (PRSC-11).

4.16 **The triggers discussed above emanate directly from findings included in the two PEFA reports, the PER and the 2011 Analysis of Central Financial Agencies.** The Government's progress reports on their Action Plan for Improving Public Financial Management also provided important information in identifying key measures for support. Other analytical reports noted in the matrix above provided important opportunities for furthering the policy dialogue process on several of these measures.

### ***Public Procurement***

<b>PRSC-9 Prior Actions</b>	<b>PRSC-10 Triggers</b>	<b>PRSC-11 Triggers</b>
<b>AXIS 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT</b>		
<b>PUBLIC PROCUREMENT</b>		
The preparation and publication of detailed procedural manuals for the public-procurement supervisory bodies. <b>(Prior Action 1)</b>	The adoption of a decree authorizing the delegation of contract signature to sector ministers in line with the thresholds assigned to ministerial procurement units.	To be determined from the previous year's evaluation.
The commencement of annual evaluations of the public procurement system (i.e. annual performance reports). <b>(Prior Action 2)</b>		
The finalization of the 2008, 2009 and 2010 procurement audits and the publication of results. <b>(Prior Action 3)</b>		
<b>Average public procurement delay (days):</b>		
Goods	Baseline (2012): 64	target (2017): <50
Services	Baseline (2012): 71	target (2017): <60
Public works	Baseline (2012): 59	target (2017): <60
<b>Analytical Underpinnings:</b>		
SCRIP Annual Performance Reports	2013 Policy Note on Strengthening Public Investment Planning	
2012 PEFA Self-Assessment	2010 Public Expenditure Review	2007 PEFA
<b>Complementary Bank Operations and TA:</b>		
IDF grant for Benin procurement professional (FY14)		
FM and Public Investment Capacity Building/TA Project (FY15)		

4.17 **Procurement reform has been ongoing in Benin for a number of years, though progress has been slow and subject to some resistance.** A new Procurement Code was passed

in August 2009, but it has taken time to put the necessary regulatory framework in place. Most of the decrees establishing the legal basis for the new procurement code have now been approved and were recognized as prior actions under PRSG-7 and PRSC-8, though implementation remains slow and institutional arrangements in some areas do not reflect the new requirements. Maintaining momentum in procurement reform is important. This is reflected in the Government's focus on procurement reform in its medium-term reform plan and in the proposed PRSC series, which goes substantially deeper than just the passage of the decrees and the creation of an enabling regulatory and institutional environment.

**4.18 The trigger for PRSC-10 delegating the authority to award procurement contracts up to a given threshold to sector ministries is intended to reduce public procurement delays and to limit the opportunities for corruption created by longstanding relationships with a small group of established firms.** This follows actions supported in the PRSC-8 concerning procurement timelines, which restricted central ministries from withholding procurement approval on arbitrary grounds and thereby reduced their ability to seek rents. Discussions are underway with the Government to ensure enactment of this delegation of authority as soon as possible. A decree has been drafted and is awaiting consideration and approval by Cabinet. Support to anticorruption efforts and the establishment of an effective anticorruption authority are closely linked to this objective.

**4.19 The prior actions regarding the publication of procurement manuals and the completion of procurement audits are critical to ensure the effective application of the new procurement code.** The dissemination of procedural manuals is particularly important as procurement authority becomes more decentralized, greater responsibility is vested in line ministries and new procurement rules are introduced. Audits in turn help to ensure adherence to the new system and highlight areas for further improvement.

**4.20 Annual evaluations of the procurement system are necessary to update and improve procurement processes.** As new administrative practices are adopted, comprehensive periodic reviews will be important to identify and address both emerging strengths and lingering weaknesses. Further triggers for PRSCs 10 and 11 will be determined based on the results of the prior action on annual procurement-system evaluations. Discussions with the government will help to define priority actions for strengthening public procurement. These measures will subsequently be included as prior actions for future PRSC operations in the series.

### *Governance*

**4.21 Combating corruption has been a stated priority of President Yayi since he took office in 2006, and the drafting of anticorruption legislation was ongoing throughout much of his first term.** Following President Yayi's reelection in March 2011, preparation efforts have gained momentum, and the inclusion of anticorruption legislation was a key prior action under the PRSG-7. The National Assembly passed the Law Against Corruption (*La Loi Contre La Corruption*) on August 30, 2011, and the decrees related to its implementation were supported as prior actions in the PRSC-8. Prior actions and triggers for this series stem largely from the Government's anti-corruption strategy and the white paper on corruption, which highlight

specific areas of needed attention and propose several actions, some of which are included in this series.

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>AXIS 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT</b>		
GOVERNANCE		
Appointed and installed the members of the National Anti-Corruption Authority (ANLC). <b>(Prior Action 4)</b>	Implementation of a fully operational system of asset and conflict of interest declaration for all senior public-sector officials and all elected and appointed public officials.  Establishment of a monitoring, reporting and evaluation system for monitoring ANLC efforts against corruption and effectiveness of the anti-corruption legislation.	Verification of declarations made under the system of asset and conflict of interest declarations and the publishing of a report on adherence to the system.  Publication of a progress report on the fight against corruption based on the monitoring, reporting and evaluation system prepared earlier.
	Implementation of an internal audit system of customs processes and transactions to reduce corruption.	Implementation of an external audit system of customs processes and transactions to reduce corruption and to identify customs officers involved in fraudulent practices.
The Minister of Development approves and publishes a timetable for implementation of an open data initiative. <b>(Prior Action 5)</b>	Open data initiative fully operational and INSAE micro-data made publicly available.	
<b>Percentage of required public officials that complete an asset declaration:</b> Baseline (2012): 0 target (2017): 95 <b>Percentage of asset declarations verified:</b> Baseline (2012): 0 target (2017): TBD (prior to PRSC-10) <b>Further governance indicators and targets to be selected and tracked from monitoring system to be implemented.</b> <b>Internal and external audits of customs transactions undertaken:</b> Baseline (2012): No target (2017): Yes		
<b>Analytical Underpinnings:</b>		
2011 Analysis of Central Financial Agencies                      2010 National Governance and Anti-Corruption Strategy 2012 National Charter on Development Governance            2008 White Paper on the State of Corruption in Benin 2014 Poverty and Gender Assessment		
<b>Complementary Bank Operations and TA:</b>		
ANLC TA (FY14)		

4.22 **This legislation addresses a wide range of corruption issues including fraud, embezzlement, misuse of public funds, influence peddling, party and electoral financing, abuse of public procurement, and nepotism in hiring practices.** It establishes stiff penalties, particularly for those in key positions within the government, and puts in place a National Anti-Corruption Authority (ANLC) made up of 13 representatives including members of civil society and the private sector. Although operating largely independently this authority will be under the authority of the Presidency. A corruption hotline that directs callers to the Presidency has also been established and publicized.

4.23 **As in other areas supported by the proposed operation, the true challenge will not be in passing policy reforms, but rather in implementing the measures required to make those reforms effective.** Tackling corruption entails simultaneously addressing both prevention and enforcement, and the prior actions and triggers support efforts in both areas. The Government has requested Bank assistance to further refine its strategy for combatting corruption, and anticorruption TA will be provided under this series.

4.24 **The creation of the National Anti-Corruption Authority (ANLC) was supported as a prior action in the PRSC-8; the corresponding prior action in the PRSC-9 seeks to ensure that the agency is made operational through the appointment of all its members.** This has now been accomplished. The members of the ANLC, and particularly its president, are strongly committed to the struggle against corruption, though they remain realistic in their objectives and recognize that challenges will be encountered. The Bank is assisting the ANLC with the development of a strategy to assist them in implementing efforts to combat corruption. ANLC members are acutely aware of the need for a credible and effective strategic approach to fighting corruption in order to maintain public support for such efforts.

4.25 **Income and Asset Disclosure (IAD) systems are gaining prominence as a means to combat corruption, as they have the potential to support both prevention and enforcement efforts.** Recognized for their effectiveness in the United Nations Convention against Corruption and other international agreements, IAD systems are intended to detect and prevent the misuse of public office for private gain and to build a climate of integrity in public administration. An IAD system also provides easy-to-reference guidelines of ethical conduct in public office and reminds officials that their behavior is subject to scrutiny. The PRSC-8 included approval of the decree allowing for such a system as a prior action and specified the officials subject to disclosure requirements. The related trigger for the PRSC-10 will ensure that the system is fully functional. TA is being provided by the Bank to assist with the development of an IAD system and its implementation.

4.26 **The establishment of a monitoring, reporting and evaluation system will provide feedback on the effectiveness of anticorruption measures carried out to date.** The ANLC is in the process of establishing such a system and has requested Bank assistance in this effort. While the Government's commitment to combatting corruption is strong, and its efforts are well-focused and well-intentioned, administrative-capacity limitations pose constraints that will require additional support to overcome.

4.27 **An additional trigger for the PRSC-10 builds on the implementation of the asset-declaration system supported under the PRSC-9 by ensuring that a complementary system for verifying declarations is established.** This system will ensure that declarations are accurate and adequately corroborated, improving compliance, facilitating the identification of problematic cases, and providing insight into areas of the asset- and conflict-of-interest-declaration system where further action may be required.

4.28 **Specific measures concerning the implementation of internal and external audit functions of the customs administration are included as triggers for the PRSCs 10 and 11.**

These have been selected to facilitate the adoption of specific anti-corruption measures, and complement efforts to increase economic competitiveness and improve the business environment. They also build on efforts by the IMF and the Bank to more broadly support improved port and customs performance, reduce trade costs, and increase transparency. Reforms in customs transparency reinforce the TA currently being provided by the IMF through the Africa Regional Technical Assistance Center (AFRITAC), and complement customs-related structural benchmarks in the ECF program as well as analysis and TA provided by the Bank and other donors.

**4.29 Finally, implementing an open data initiative is important to increase transparency, strengthen the demand side in public policy debates, and facilitate increased engagement by the citizenry.** Benin’s National Statistics and Economic Analysis Institute (*Institut National de la Statistique et de l’Analyse Economique – INSAE*) has closely guarded its data and has not made its databases available for scrutiny, even among government institutions. Allowing academics, civil society groups, donors, international and domestic institutions, and individuals to access data will encourage a more open public policy environment, greater engagement by marginalized and under-represented groups and fairer and more equitable public policy choices. The need for improved data availability became clear during the Poverty and Gender Assessment process which highlighted several data and methodological issues within INSAE and included several recommendations for strengthening data collection and analysis.

## Axis 2: Strengthening Private-Sector Competitiveness

### *Business Enabling Environment*

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>Axis 2: Strengthening Private-Sector Competitiveness</b>		
BUSINESS ENVIRONMENT		
Adoption of a ministerial order identifying the Registry of Commerce and Credit ( <i>Registre du Commerce et du Crédit Mobilier – RCCM</i> ) at the Court of First Instance, First Class, of Cotonou ( <i>Tribunal de Première Instance de Première Classe de Cotonou</i> ) as the sole registry for recording all collateral and leasing arrangements. <b>(Prior Action 6)</b>		
Submission to the Supreme Court of a Public-Private Partnership (PPP) bill. <b>(Prior Action 7)</b>	Submission of a new Labor Code to the National Assembly.	
Creation of the Agence Beninoise des Grand Travaux (Agency for National Projects). <b>(Prior Action 8)</b>	Submission of a Competition Act to the National Assembly.	
Signing of an agreement between the <i>Centres de Gestion Agréé</i> and the tax administration. <b>(Prior Action 9)</b>		
<b>Credit registry coverage (%):</b> of which female % (gender disaggregation will be tracked if possible)	Baseline (2012): 10.9 ( )	target (2017): >20 ( )
<b>Number of PPP arrangements/contracts entered into:</b>	Baseline (2012): 0	target (cumulative through 2017): 6
<b>Number of formal registered companies:</b>	Baseline (2012): 29,386	target (2017): 35,000
<b>Percentage of labor force in salaried employment:</b> (Source: INSAE)	Baseline (2012): Urban (male) 24.3 Urban (female) 8.7 Urban (youth) 15.0 Rural (male) 5.1 Rural (female) 1.3 Rural (youth) 2.6	target (2017): 27.0 target (2017): 10.0 target (2017): 20.0 target (2017): 7.5 target (2017): 3.0 target (2017): 5.0

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>Analytical Underpinnings:</b>		
Annual Doing Business Reports	2009 Country Economic Memorandum	
2005 Investment Climate Assessment (ICA)	<i>Doing Business</i> 2014: Reforms for Improving Benin's Ranking	
2013 Policy Note on Broadening the Tax Base	2014 Poverty and Gender Assessment	
<b>Complementary Bank Operations and TA:</b>		
E- Benin Project	Competitiveness and Integrated Growth Opportunity Project	
West Africa Communications Infrastructure Program (WARCIP)		
Youth Employment Project (FY14)	Cross-border SEZ along Nigeria-Benin border (FY15)	

4.30 **Benin has remained near the bottom of the *Doing Business* rankings for many years and is currently 174<sup>th</sup> out of 189 countries in the 2014 report.** The Government has undertaken measures to remedy this situation. The President has reinvigorated the Investment Climate Council (ICC) in the Presidency and is seeking assistance to both strengthen the institutional framework for doing business and ensure that the policy and regulatory environment is appropriate to fostering growth and competitiveness. The President has asked for direct Bank assistance with these efforts, and both the IFC and the WBI are helping strengthen the ICC.

4.31 **The IFC supported the ICC in developing an action plan for strengthening the business environment.** This plan identifies key regulatory and institutional reforms to be implemented over the next few years. The proposed PRSC series supports the ICC's reform agenda, particularly in the areas of port and customs reform and in agriculture, through a set of complementary measures aimed at improving the business and investment climate. Some of the prior actions and triggers are noted explicitly in the Government's *Doing Business* 2014 report which focused on reforms for improving Benin's *Doing Business* ranking.

4.32 **While the prior actions in this area are not specific to trade, transport or agriculture, they are essential to fostering a business environment that is conducive to private-sector-led growth.** Benin's administrative and institutional structure imposes high costs on establishing formal enterprises or formalizing existing firms. This discourages entrepreneurship, limits job growth and negatively impacts domestic revenues. The prevalence of informality narrows the tax base, which both reduces overall tax revenue and shifts the bulk of the tax burden to the small formal sector, creating a further disincentive to formalization. The prior actions and triggers for this policy area will foster a business environment that is more conducive to the establishment and growth of formal enterprises.

4.33 **Lack of access to credit is a significant impediment to business formation and expansion, and this constraint is particularly severe in the agricultural sector.** The largely informal nature of the economy and the small size of the average business, compounded by the lack of a functioning credit bureau and the absence of borrowers' credit history and outstanding financial commitments, greatly limit firms' access to credit. The first step in addressing these issues will be to centralize the recording and registration of credit and leasing arrangements within a single institution. This will allow creditors to more easily search loan applicants' financial histories, record collateral arrangements and verify existing liens and encumbrances.

4.34 **An agreement between the Certified Management and Accounting Centers (*Centres de Gestion Agréé* – CGAs) and the tax administration will promote business formalization.**

The CGAs provide accounting services to small and medium enterprises (SMEs), services that these firms are often unable to perform or procure on their own. The agreement between the CGAs and the tax administration allows the latter to accept CGA documentation as accurate and factual for tax purposes. This facilitates the formalization of SMEs, encourages increased formal sector employment and job creation, makes firms eligible for other government services and increases their access to credit and financial services. These measures also complement PFM reforms and enhance macroeconomic stability by broadening the tax base, boosting overall revenues and reducing the government’s dependence on trade-related revenues.

**4.35 Public-Private Partnership (PPP) reform is critical as Benin has been plagued by failed PPP arrangements in recent years, particularly at the port and in the cotton sector.**

To date, PPPs have been established in a somewhat opportunistic fashion, generally on terms proposed by the private-sector partner. Several of these arrangements have not been favorable to the Government or the public interest. Reforms are required to ensure that PPP opportunities are properly identified, follow competitive processes, optimize benefits to the Government, consider viable alternatives and recognize potential contingent liabilities. The introduction of PPP legislation and a PPP unit (Agence Beninoise des Grand Travaux), as prior actions for PRSC-9, are important steps in rationalizing government involvement in PPPs, protecting the public interest, and maximizing both the public and private benefits of such arrangements. The IFC and the WBI assisted in this endeavor with the provision of TA and these prior actions are informed by this cooperation.

**4.36 Efforts to encourage SME formalization, provide increased access to credit, foster PPP activities and related investments, and support a revised labor code are all seen as facilitating salaried employment and job creation.** Currently only 7 percent of the labor force enjoys salaried formal sector employment, with women and youth experiencing even lower levels. Disaggregated indicators of salaried employment, as drawn from household surveys, will be tracked to review progress in this area.

***Agricultural Diversification and Cotton Reform***

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>AXIS 2: Strengthening Private-Sector Competitiveness</b>		
<b>AGRICULTURAL DIVERSIFICATION AND COTTON REFORM</b>		
Establishment of an institutional framework for implementation of the PSRSA by having: <b>(prior Action 10)</b> <ul style="list-style-type: none"> <li>• Reorganized the Ministry of Agriculture through the adoption of a decree describing the powers, organization and operation of the Ministry;</li> <li>• Adopted a decree describing the powers, organization and operation of CARDERS.</li> </ul>	Trigger to be introduced once an approach to cotton-sector reform has been finalized. (prior to PRSC-10)  Created the Agency for the Promotion of Agricultural Commodities (ABERPRoFA).  Agriculture credit trigger to be introduced once an appropriate approach to a guarantee fund and/or research fund has been designed. (prior to PRSC-10)	Accreditation of a Central Laboratory for Food Safety according to European Union standards.

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>Number of specialized agencies operational under new PSRSA:</b>	Baseline (2012): 0	target (2017): 4
<b>Number of non-cotton agricultural commodities having an inter-professional organization:</b>	Baseline 2012: 0	target (2017) : 4
<b>Percentage of non-cotton farmers having access to extension services through CARDERS:</b>	Baseline 2012: TBD Target (2017) : TBD	
<b>Agriculture result to be introduced</b>		
<b>Analytical Underpinnings:</b>		
2009 Country Economic Memorandum 2014 Poverty and Gender Assessment	2011 Benin: Sustainable Options for Agricultural Diversification	
<b>Complementary Bank Operations and TA:</b>		
Agricultural Productivity and Diversification Project Cotton Sector TA (FY14)	West Africa Agricultural Productivity Program (WAAPP)	

4.37 **As noted above, Benin possesses an important and largely unexploited comparative advantage in agricultural production.** The agricultural sector accounts for over 30 percent of GDP and nearly 70 percent of total employment. Benin has a large endowment of arable land, fertile soil and adequate water resources. However, yields of major crops, including cotton, have remained persistently low over time. Overall agricultural growth is typically around 3 percent annually, though the SCRP III predicts significant improvements in agricultural productivity. Much of Benin’s agricultural production currently relies heavily on family labor and traditional farming methods, with limited use of improved inputs, modern techniques or sophisticated equipment, and as a result productivity is low. Access to financing for agriculture is limited outside the cotton subsector.

4.38 **As part of the SCRP III Benin has adopted a new Strategic Program for the Reform of the Agricultural Sector (*Plan Stratégique de Relance du Secteur Agricole – PSRSA*); the approval of the PSRSA was a prior action under the PRSG-7, and its implementation is supported by the proposed PRSC series.** The strategy, which covers the 2011-2015 period, describes the Government’s plan for accelerating growth and diversification in the agricultural sector. The CEM and the 2011 report on Sustainable Options for Agricultural Diversification were clear in highlighting this need. Furthermore, the 2013 Poverty and Gender Assessment was unambiguous in noting that improving agricultural productivity, and not simply increasing agricultural production, was of paramount importance in fostering pro-poor growth. Agricultural diversification and improved delivery of government services is key in this regard and will require strengthened government institutions, including research and extension services. At the strategy’s core is the promotion of value chains through agricultural entrepreneurship and professionalization of small-scale farmers. The PSRSA is structured around four program areas (agriculture, livestock, fisheries, and agricultural-sector administration and management) with eight strategic pillars designed to ensure: (i) access to quality seed; (ii) access to other improved inputs; (iii) access to adapted mechanization; (iv) access to adequate finance mechanisms (credit and insurance); (v) access to professional knowledge and education; (vi) adequate infrastructure and agricultural facilities; (vii) access to land; and (viii) access to markets. The prior actions

supported by the proposed series are critical to the effective implementation of the PSRSA and will yield immediate benefits in agricultural production and productivity.

**4.39 Reorganization of the Ministry of Agriculture and strengthening of the CARDERS, regional rural development centers, is necessary in order to reorient government efforts toward agricultural diversification efforts and to increasingly move away from the current cotton dominated focus.** An institutional and organizational audit of the Ministry of Agriculture (MAEP) and its regional decentralized entities (the CARDERS) was carried out in 2008 and updated in 2010. This audit indicated that the structure, scope of activities, procedures and staffing were not adequate and consistent with implementation of the PSRSA. Problems and weaknesses identified included: (i) inadequate organizational structure and insufficient technical and operational capacity to properly assume leadership in the agricultural sector and to promote agricultural commodities as per the new orientation of the PSRSA; (ii) a need to disengage from activities that can be better carried out by the private sector and insufficient coordination with other stakeholders; and (iii) an inadequate institutional framework to channel private sector investment into the agricultural sector. The reorganization of MAEP is intended to improve the provision of quality services to producers and to further agricultural diversification and to more specifically increase efficiency, optimize resource utilization and avoid duplication.

**4.40 The decree supported as a prior action introduces a new organizational chart so that MAEP can concentrate on policy making, regulatory activities and the provision of public goods in the agricultural sector.** The new structure includes two new entities, namely: the Directorate of Agricultural Development, Food and Nutrition which pulled together seven existing technical divisions; and the Directorate of Land Development and Rural Infrastructure, which amalgamated four existing technical divisions. The decree also established a framework for increased involvement of the private sector through the planned creation of specialized PPP agencies such as the Agence Béninoise pour la Promotion des filières Agricoles (ABEPROFA); Agence de Développement de la Mécanisation Agricole (ADMA); Agence de Promotion des Aménagements Hydro-Agricoles (APAH); and Laboratoire Central de Sécurité Sanitaire des Aliments (LCSSA).

**4.41 The institutional and organizational audit carried out in 2008 pointed out that the CARDERS had the following shortcomings:** (i) a lack of financial autonomy, heavy reliance on public funding and insufficient financial resources to fulfill their role in providing adequate services to producers; (ii) weak technical and operational capacity and an inability to provide timely support to producers and promote agricultural commodities; and (iii) insufficient coordination of activities with other stakeholders at the regional level (communes, NGOs, private sector, producers' organization, and other public sector entities). The supported decree introduced the following changes: (i) CARDERS are now public agencies with financial autonomy under the umbrella of the Ministry of Agriculture; (ii) the governance structure has been strengthened and each of the six CARDERS has a Board of Administrators and an auditor for financial control; (iii) each will receive initial funding of US\$1 million and can benefit from external funding; (iv) additional staff and a new organizational chart that includes a division on agricultural development in charge of promoting entrepreneurship and agribusiness; and (v) the coordination role of the CARDERS in terms of regional agricultural development has been clarified and strengthened.

4.42 **The trigger creating ABEPROFA stems from the lack of coordination among the various structures involved in the promotion of agricultural commodity value chains.** The Agency is intended to fill this gap and be responsible for coordinating across ministries and stakeholders activities related to the promotion of specific agricultural commodities. It will also implement projects on behalf of public and private entities in these areas and will be established as a PPP. The Ministry of Agriculture is currently working on the details around its creation, funding and governance.

4.43 **Agriculture is a sector that is significantly credit constrained.** The need for credit in the agriculture sector was highlighted by the 2009 CEM. Despite its economic importance only 4 percent of available credit is extended to agriculture-related activities. The structure of a possible guarantee fund for agriculture is under discussion. It is being designed to leverage loanable funds available to the agriculture sector. Moreover, a research fund will provide funds (also government and donor sourced) aimed to further agricultural diversification efforts through applied practical research. A prior action and respective result indicator could be introduced for PRSC-10 once this discussion is completed.

4.44 **The creation of a food-safety laboratory is part of the PSRSA and is critical to agricultural diversification and export promotion.** Benin is capable of producing food products for direct export to developed-country markets, particularly cashew nuts, tropical fruit juices, fresh fruit and seafood, but meeting food-safety standards is a key prerequisite. Agricultural diversification was the topic of specific AAA work culminating in the 2011 report on Sustainable Options for Agricultural Diversification, which also included analysis of agricultural export potential.

4.45 **Cotton is Benin's largest official export, typically representing 25 to 40 percent of annual exports prior to the recent downturn in production.** Production fell from a recent high of 417,000 tons in 2004/05 to just 137,000 tons in 2010/11 and then moderately improved over the past two seasons, at 170,000 tons in 2011/12, and 240,000 tons in 2012/13. This decline in cotton production was the result of low world cotton prices in the late 2000s, as well as difficulties in the input supply chain and rising global food prices, which encouraged a shift from cotton to food production.

4.46 **Recent improvements in cotton production occurred despite significant upheaval in the sector.** Following a set of reforms and the sale of the national cotton company's industrial assets in 2008, the structure of the cotton sector had returned to an effective monopoly, albeit a private one, with a large consortium of firms owned by the Talon Group controlling a very large share of the cotton value chain, from input distribution to processing and export, through arrangements with the Inter-professional Cotton Association (*Association Interprofessionnelle de Coton* – AIC). Following a dispute between the Talon Group and the President, the Government dismantled the AIC and the state assumed responsibility for the procurement, distribution and sale of inputs (fertilizers, herbicides and pesticides). This caused great uncertainty at the beginning of the 2012 planting season, jeopardizing production. Despite initial concerns regarding the Government's capacity to assume these responsibilities, and the late start of planting, the Government deployed the means at its disposal in procuring and distributing inputs.

As a result, the 2012/13 season was the most productive in several years and the sector's strong performance appears to be continuing into the present 2013/14 season.

4.47 **The Government is determined to return to a largely private-sector-led cotton sector, though recognizing the need to avoid monopolistic structures.** Consultations and deliberations have been ongoing, with periodic contributions from the Bank. The authorities are currently considering a zonal concession system, similar to the system used in Burkina Faso, and there seems to be widespread support for this approach. However, past experience dictates that consensus is critical, that broad ownership of solutions is key and that decisions should be made carefully and judiciously in this economically and politically significant sector. As such, the Government is in the midst of consultations, building consensus and designing an approach acceptable to all players. Once a decision is made, appropriate prior actions and triggers will be included in subsequent operations to support cotton sector reform.

### *Port and Customs Reform*

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers
<b>AXIS 2: Strengthening Private-Sector Competitiveness</b>		
<b>PORT AND CUSTOMS REFORM</b>		
The approval of a decree limiting, regulating and consolidating checkpoints on the Cotonou-Ouagadougou and Cotonou-Niamey road corridors. <b>(Prior Action 11)</b>	To be determined through ongoing technical assistance activities and cooperation (prior to PRSC-10)	To be determined through ongoing technical assistance activities and cooperation
<b>Port of Cotonou dwell time (days):</b>	Baseline (2012): 27	target (2017): 5
<b>Cost to Export (US\$ per container):</b>	Baseline (2012): 1079	target (2017): 10% reduction in real terms
<b>Cost to Import (US\$ per container):</b>	Baseline (2012): 1549	target (2017): 10% reduction in real terms
<b>Number of roadblocks per corridor (WATH data):</b> Baseline (2012): 8 target (2017): 3		
<b>Analytical Underpinnings:</b>		
2013 Customs Assessment (CATT)	2013 World Bank Customs Reform Aide-Memoire	
2013 IMF Customs Reform Aide-Memoire	2012 Port Operations Policy Note	
2012 Customs Procedures Audit (Deloitte – EU funded)	WATH Periodic and Quarterly reports	
<b>Complementary Bank Operations and TA:</b>		
Abidjan-Lagos Trade and Transport Facilitation Project	Customs Reform TA (FY14)	
ECOWAS One Stop Border Posts (FY14/15)	Regional Trade and Competitiveness (Transport) DPO (FY16)	

4.48 **Over the past year Benin has made significant improvements in the ease of trading across borders by undertaking a broad range of reforms, from upgrading port infrastructure to reducing customs documentation.**<sup>2</sup> Dwell time at the Port of Cotonou was sharply reduced, falling from nearly 30 days in late 2011/early 2012 to a current average of 5 to 6 days. The introduction of a 'single window' (*guichet unique*), along with expanded facilities for truck parking and staging, new lighting systems, and a state-of-the-art security system represent important improvements in port management and operational efficiency. A policy note on port performance was delivered to the Government in November 2012, and the authorities

<sup>2</sup> See the 2014 *Doing Business* report.

took prompt action on several of its recommendations. The port is now operating 24 hours a day, 7 days a week. There is a single entry point for trucks, a pre-authorization system for truck entry, and a system to monitor truck time in the port, with fines and penalties imposed for excessive duration.

**4.49 The focus of the reform effort has now shifted to the customs administration.** Having encountered difficulties in implementing the Import Verification Program (*Programme de Vérification des Importations* – PVI) in 2011 and early 2012 the Government cancelled its service contract with Benin Control, the service provider, and has now approved a new approach for customs reform with technical assistance from the IMF and the Bank. The Government’s reform strategy is based on three objectives: (i) strengthening the capacity of the customs administration to fulfill its key functions; (ii) enhancing customs efficiency by introducing modern performance tools, supported by additional capacity-building assistance from private operators over a period of 3 years; and (iii) improving customs-revenue collection and management. The strategy focuses on reinforcing the main functions of a modern customs administration, namely: (i) implementation of a sound risk-management system; (ii) customs-valuation controls on imported goods; (iii) pre-clearance inspection through tools such as scanners and weighbridges; (iv) post-clearance inspection when necessary in place of third-party pre-shipment inspection; and (v) customs-regime controls, including the tracking of goods in transit. The Government has drafted and adopted an action plan to implement this strategy and has established an institutional framework for reform including both a surveillance committee and a steering committee.

**4.50 The IMF has included key customs reform measures in its ECF program.** The Bank and the IMF have provided analysis, recommendations and TA for improving the customs administration. The Bank, in collaboration with local authorities, is drafting a TA strategy to ensure effective implementation of the Government’s action plan for customs reform. Prior actions and triggers for PRSCs 10 and 11 will be included as the TA agenda progresses and will also be informed by the recently completed Customs Assessment. Particular attention in the provision of TA will focus on supporting PRSC-10 and 11 triggers including the establishment of internal and external audit functions. Work at the port and with Customs under the Abidjan-Lagos Trade and Transport Facilitation Project will also inform the choice of future triggers.

**4.51 The prior action on road-transport checkpoints is critical to facilitating the timely movement of goods through the port and along the nation’s transit corridors.** While much progress has been made in increasing port efficiency, reforms should not end at the port gates. Upstream transportation bottlenecks have a direct and meaningful impact on port and trade performance, as improving the efficiency of both the port-land interface and land-transport capacity are important to facilitating trade and containing transportation costs. Thus the port cannot be looked at in isolation as a separate entity disconnected from the broader transportation supply chain.

**4.52 The West Africa Trade Hub has estimated that there are on average 10 roadblocks in Benin along the Cotonou-Niamey corridor.** These roadblocks cost truckers an average of approximately US\$50 per 100 kilometers in bribes, while costs on the Nigerien side of the border

are even higher. Livestock shipments are particularly susceptible to bribes and southbound shipments are subject to more frequent roadblocks and higher costs.

**4.53 The prior action supported by the PRSC-9 limits the number of official checkpoints along the transport corridors to just three.** This has required the consolidation of various checkpoints, including customs, police, military, public health, agriculture, and transportation-authority checkpoints. Checkpoint consolidation has reduced opportunities for rent-seeking, as well as transportation times and costs.

### **C. LINKS TO THE CPS AND OTHER BANK OPERATIONS**

**4.52 PRSCs are a key instrument in the Bank's ongoing policy dialogue with the Government and its development partners.** The Country Partnership Strategy (CPS) for FY13-17 (Report No. 75774-BJ), which was discussed by the Board on April 9, 2013, notes the importance of relying on a combination of development policy and investment operations in order to encourage a coherent approach to supporting structural reforms. The new CPS explicitly includes PRSCs as a key IDA instrument for supporting Benin's SCRIP III and in addressing the Government's request for greater donor harmonization on priority reforms. The proposed PRSC series supports two key areas targeted by the new CPS, namely: (i) strengthening governance and public sector capacity; and (ii) enhancing economic growth and competitiveness. The third CPS priority, access to basic social services, is indirectly supported by the proposed series through its efforts to boost the effectiveness and efficiency of public administration; this will help to improve the delivery of basic public services on which the poor often rely most heavily.

**4.53 Several ongoing and planned projects are direct complements to this operation and provide financial and technical assistance, and institutional capacity-building in mutually reinforcing areas.** These are noted in the preceding matrices and include: the ongoing IDA/IFC Competitiveness and Integrated Growth Opportunity Project (CIGOP, US\$25 million); The Abidjan-Lagos Trade and Transport Facilitation Project (US\$75 million for Benin); the Emergency Food Security Support Project (US\$9 million) implemented under the Global Food Crisis Response; the Agricultural Diversification Operation (US\$31 million); the Decentralized Community Driven Services Project (US\$46 million); the 2<sup>nd</sup> Decentralized Communities Project (US\$75 million); and finally, a Capacity Building/TA project (US\$25 million) focusing on PFM is planned to commence in FY15.

**4.54 INSAE is currently developing a second National Statistical Development Strategy.** Support for this process is being sought from the Statistical Capacity Building Trust Fund. Bank assistance is expected to initially focus on updating the national statistical development plan and may be followed by discreet capacity-building activities. In addition the Bank has a full-time poverty economist resident in Cotonou, funded through a trust fund, who is assisting INSAE with their data issues, survey methodology and analytical work.

### **D. CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS**

**4.55 Donor coordination in Benin is well-developed.** This is particularly true for budget support, though the total number of donors providing budget support to Benin is declining. An identification mission was carried out in the context of a joint donor review of Benin's SCRIP III.

This latest review, conducted during June 20<sup>th</sup>-28<sup>th</sup> of this year, included: (i) discussion, review and revisions of the common policy and results matrix, as well as the main performance indicators; (ii) coordination of comments on the SCRP III progress report; (iii) discussions on major policy areas, notably PFM, private-sector development, governance, decentralization and civil-service reform; and (iv) joint preparation of a comprehensive aide memoire identifying agreed-upon policy and reform actions. The donor community in Benin was consulted during the preparation of the proposed series, and this consultative process informed its design.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### A. POVERTY AND SOCIAL IMPACTS

**5.1 PRSCs 9 through 11 are expected to have a positive impact on poverty reduction and growth with equity, as illustrated in the results chain provided in Annex 2.** Prior actions 1, 2, and 3 and triggers supporting strengthened public-sector management are expected to enhance the efficiency and effectiveness of public resources, not only by facilitating more robust economic performance and greater diversification, but also by improving the delivery of social services. Equitable development is an explicit objective of the SCRP III, and the proposed series advances this goal through actions supported under both of its programmatic axes. Improving access to public services and the quality of services delivered can only be achieved through improved performance in the relevant ministries, better resource utilization, more effective expenditure identification and tracking and greater transparency, which will result in a more equitable distribution of resources and services. While direct sectoral interventions and investments have proven effective in Benin, the lack of administrative capacity at the central-government level is a common obstacle limiting the effectiveness of programs in all sectors, as are related issues of good-governance and transparency. Many constraints are shared across ministries and require joint solutions; hence the focus of this operation is on addressing central PFM and governance issues rather than extending support to reforms in specific sectors.

**5.2 Prior action 4 and 5 and triggers supporting greater transparency and anticorruption efforts should limit rent-seeking and the influence of elite groups, leading to a fairer and more equitable distribution of public services, benefits and contracting opportunities.** Benin's economy is largely controlled by groups with strong connections to the Government, and political and private-sector interests are often virtually indistinguishable. Actions related to good governance and improved transparency can lead to a more equitable distribution of the benefits of growth. Prior action 6, related to an open data initiative, should enhance demand-side policy pressure and lead to more equitable and pro-poor outcomes.

**5.3 Prior actions 6, 7, 8, 9 and triggers aimed at improving the business environment will help promote investment, encourage formalization and stimulate growth.** Initial results from the 2013 Poverty Assessment note the strong link between unemployment, underemployment and poverty. Gender-specific results and recommendations from the assessment have informed the policy dialogue with the Government. Gender disparities are especially pronounced in the credit market, where improving access to credit has had an important impact on women's economic empowerment. Support for reforms designed to improve the business environment, enhance private-sector competitiveness and build a more diversified

and resilient economy will have positive effects on employment creation and poverty reduction. The inclusion of gender disaggregated indicators will better inform the policy dialogue process around measures that could have potentially positive impacts on women and will encourage the consideration, adoption and implementation of policies with measurable and positive expected outcomes for women.

**5.4 Prior action 10 and triggers on agricultural diversification and productivity, are important in achieving the Government’s stated goals for poverty reduction and equitable growth.** Further results from the Poverty Assessment indicate that while agricultural growth has contributed strongly to overall growth and is responsible for a majority of livelihoods among the poor, rising production has been spurred by increases in the amount of land under cultivation and in the share of labor devoted to the sector, rather than by improvements in the marginal productivity of either land or labor. As a result, while production has increased, incomes in the agricultural sector remain low and stagnant. Diversifying production into more valuable crops, focusing more resources on export-oriented crops, and increasing the level of mechanization and the availability of inputs, as envisioned in the PSRSA and supported by this operation, should raise productivity and boost incomes among the large share of the population (and especially the poor population) which is involved in agriculture.

## **B. ENVIRONMENTAL ASPECTS**

**5.5 The activities supported by the proposed operation are unlikely to have significant negative environmental effects.** All of the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences.

**5.6 The prior actions and triggers in the area of PFM are related to budget planning and execution and pose no risk to the environment.** Supported actions in the area of public procurement are also process-related and do not affect environmental regulations, environmental assessment processes or environmental safeguards for public procurement. Action and triggers regarding governance and transparency are similarly unrelated to environmental issues.

**5.7 Prior actions and triggers designed to strengthen economic competitiveness are also largely environmentally neutral.** Supported measures at the port and in trade facilitation are primarily administrative and logistical; they do not involve civil works or other activities that might be expected to have an adverse environmental impact. Indeed, measures to speed the transit of cargo trucks both on inland transport corridors and at the Port of Cotonou may have a moderately positive impact on pollution emissions. In the agricultural sector the proposed series’ support to the PSRSA is intended to diversify agriculture away from reliance on cotton, with potentially positive environmental effects as agriculture becomes less mono-culture based and increasingly diversified. The PSRSA strategy, which this operation supports, includes measures to make agriculture more environmentally sustainable and more climate-change resilient. AAA work planned for the coming year will assist the Government in incorporating environmental issues into the PSRSA implementation efforts, in particular by incorporating climate change considerations into agricultural strategies and action plans.

### C. MONITORING AND EVALUATION

5.10 **The Ministry of Economy and Finance will be responsible for overall implementation of the proposed PRSC series.** The ministry's Monitoring Unit for Economic and Financial Programs (*Cellule de Suivi des Programmes Economiques et Financiers* – CSPEF) will lead the Government's technical team, with additional representatives from sector ministries participating as required.

5.11 **The Government has determined that the monitoring and evaluation of the SCRP III, the proposed PRSC series and other externally financed budget-support operations will be based on the performance indicators and targets set out in sector program budgets.** These indicators are consolidated in the results matrix agreed upon by the Government and its budget-support partners and are closely aligned with the SCRP III results matrix. Sector ministries collect data and transmit it to CSPEF, which analyses the data and produces periodic reports. This framework, which builds on the mechanism put in place for the first PRSP series, supports the coordinated action and synergies between stakeholders involved in the monitoring and evaluation of the SCRP III and the provision of donor support. The donor community and the Government have agreed to an annual review process that includes quarterly review meetings, additional meetings on special subjects as needed, a mid-year progress review on the previous year's aide memoire, individual sector reviews, a joint donor-government review mission and the preparation of a new aide memoire for the coming year. The Bank is fully involved in this process, participating in and contributing to every element of it.

### D. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.12 **The Government's policy framework for budget management is based on the 2005 Country Financial Accountability Assessment update and the 2007 PEFA assessment.** A Public Expenditure Review was undertaken in 2010, followed by a PEFA self-assessment update in 2012. The new LOLF budget framework law was passed in 2013, and the authorities are in the process of adapting to this more rigorous budget regime. The proposed series supports these efforts. The Government has also adopted an action plan for procurement reform, and this plan is in line with both the WAEMU procurement directives adopted by the Council of Ministers in 2005 in the context of the Regional Procurement Reform Program supported by IDA and other donors and the Baseline Indicators developed and adopted by the Bank, OECD and IDA. The new procurement code was approved by the Council of Ministers in late 2007 and by the National Assembly in early 2009; the passage of regulations to render it effective was included as a prior action in the PRSG-7. Further procurement reforms were included in PRSC-8 and are continued in the proposed series.

5.13 **Progress has been made in curbing the use of exceptional budget-execution procedures, and further improvements are expected.** One remaining issue is the delay in the production of the Government's annual accounts by the Treasury, as well as the budget-audit reports by the Chamber of Accounts. The Treasury issue is being addressed through the recruitment of additional staff and the dissemination of ASTER accounting software. This delay has been shortened, and the backlog of annual accounts has been largely closed. Accounts for 2007, 2008 and 2009 were submitted to the National Assembly for ratification on October 15, 2012. The annual accounts for 2010 were submitted to the Chamber of Accounts on October 4,

2012 and the accounts for 2011 were submitted on October 15, 2012. The 2012 accounts were submitted to the Chamber of Accounts on Jun 25, 2013.

**5.14 PRSCs 9 through 11 build on the achievements made under previous PRSCs by supporting key reforms in PFM, including measures to strengthen planning, budgeting and procurement processes.** Overall, the Bank has judged the implementation of the PFM reform program and the Government's commitment to reform as satisfactory. The fiduciary environment has also been deemed adequate for the proposed operation. The Government's budget is now being published and is publically available on the Ministry of Finance's website, as are quarterly budget-execution reports.

**5.15 The BCEAO continues to improve its governance structure.** The latest IMF safeguards assessment, undertaken in March 2010, determined that adequate controls remain in place at the operational level. However, the IMF noted that the overall governance framework should be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanism and financial statements. The upcoming implementation of institutional reforms to WAEMU and the BCEAO should help to improve this situation. The assessment also noted that efforts to fully implement International Financial Reporting Standards should continue to be pursued. In 2009 Benin's treasury account with the BCEAO, which receives and transfers budget support from donors, was audited and found to be in order.

**5.16 The proposed operation would consist of a single tranche of SDR 13.1 million (US\$20 million equivalent) to be made available upon effectiveness and disbursed on the basis of a withdrawal application.** The Recipient is the Republic of Benin, represented by the Ministry of Economy and Finance. The proposed operation would follow IDA's disbursement procedures for development policy operations and would not be linked to specific purchases. Credit proceeds would be disbursed against satisfactory implementation of the development policy program and maintenance of a satisfactory macroeconomic framework.

**5.17 Once the financing becomes effective, and provided IDA is satisfied with the program being carried out by the Recipient and the appropriateness of the Recipient's macroeconomic policy framework, the proceeds will be deposited by IDA into an account at the Central Bank which forms part of the country's foreign-exchange reserves.** The Recipient shall ensure that upon the deposit of the credit into said account an equivalent amount in local currency is credited in the recipient's budget management system in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to local currency to the budget-management system within 30 days of deposit. The equivalent amount in CFAF reported in the budget system will be based on the market rate at the date of the transfer. The proceeds of the credit will not be used to finance expenditures excluded under the Financing Agreement. If the proceeds of the credit are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund, promptly upon notice, an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such a request shall be cancelled. The closing date of the operation will be December 31, 2014. The deposit accounts may be audited on terms of reference acceptable to IDA should IDA determine that such an audit is necessary.

## 6. SUMMARY OF RISKS AND RISK MITIGATION

6.1 **The overall risk level associated with this series is moderate.** Staff believes that the potential benefits of the proposed operation outweigh the risks involved and warrant IDA's assistance in implementing the critical reforms and policy actions supported by this operation, in coordination with other donors, along with appropriate risk mitigation actions.

6.2 **Macroeconomic risks will be attenuated through specific measures supported by the proposed operation.** Planned investment operations in the energy and agricultural sectors, efforts to diversify agricultural production and especially actions in the proposed operation aimed at further strengthening PFM in the context of a sound macroeconomic framework all mitigate macroeconomic risks. TA to help control the wage bill through the harmonization of the payroll and human-resource management systems provided under previous PRSC operations and continuing under the PRSC-9 should serve to reduce wage-related pressures and risks. Recent AAA work on broadening the tax base is expected to help increase revenues and reduce revenue volatility. The IMF and World Bank teams, working in close coordination, will continue to monitor the Government's macroeconomic performance. Finally, the overall country dialogue process among Benin's budget-support partners, multilateral institutions and the Government allows for some budget flexibility to address crisis-related expenses within the context of a prudently managed budget that protects priority growth and poverty-reduction programs.

6.3 **Unpredictable political-economy developments and a potential weakening of the consensus for structural reform both pose risks, and difficulties have been encountered in port administration and the cotton sector.** While resistance is present, particularly regarding port reforms, the Government is in a strong position to advance its agenda. With a governing coalition in the National Assembly and a new presidential mandate, the Government has a viable window of opportunity to proceed aggressively with its reform program. Nevertheless, to help mitigate this risk IDA is supporting engagement with key stakeholders, including the National Assembly and sector ministries, in an effort to build consensus regarding key reforms. These efforts are complemented by the dissemination of AAA and economic and sector work (ESW) as a means to publicize the advantages of priority structural reforms. This leveraging of AAA and ESW will extend to communications and outreach efforts designed to raise awareness among the general public and build popular support for important reforms. AAA and ESW will increasingly focus on analytical work in areas where stronger reform efforts are needed and where the potential impact of reforms is greatest. While building consensus in a competitive multiparty democracy is a continuous process, this operation seeks to reduce both present and future political-economy risks through efforts to support improved governance through anticorruption policies, PPP reforms, open data access, strengthened procurement processes and a more enabling business environment. These measures will support greater transparency, increased accountability, the leveling of the economic playing field, and the more equitable distribution of opportunities among Benin's citizens.

6.4 **Operational design, implementation and sustainability risks arise from capacity constraints and weaknesses in public administration that may hinder the implementation of reforms.** Key constraints include: (i) low salaries and perverse incentives within the public administration, which limit the Government's ability to retain and recruit skilled staff in vital

positions; (ii) the ambiguity of the administrative structure in some ministries, which complicates the implementation of sectoral reform strategies; and (iii) controversies regarding politically sensitive reforms in procurement and public services. To help mitigate these risks the proposed operation focuses on a limited range of policy areas in order to support deeper reform efforts with a focus on practical implementation. In addition, the Bank continues to provide AAA, ESW and TA support in difficult areas such as port-administration and customs procedures, civil-service reform and tax policy in order to advance Benin's reform strategy and bolster its efforts to effectively implement priority measures.

### Annex 1: Policy and Results Matrix

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers	Results
<b>AXIS 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT</b>			
<b>Budget Execution</b>			
	Adoption of the Transparency Code Directive.	Public dissemination of budget/public finance information in accordance with Chapter VI of the Transparency Code Directive.	<b>Average payment delay (days):</b> Baseline (2012): 15      target (2017): <15  <b>Unallocated percentage of budget:</b> Baseline (2012):              target (2017): <5
	The adoption of the decrees necessary for enactment and implementation of the Guidelines for the General Rules of Public Accounting, Budget Nomenclature (NBE), the Public Accounting Plan (PCE), and the TOFEs.	Updating of existing financial software applications to make them compatible with the new harmonized public finance framework, including the LOLF, NBE and PCE.	<b>Exceptional Payment orders (% of total budget):</b> Baseline (2012): 3.18      target (2017): <3  <b>Time required to submit national accounts to the Chamber of Accounts (months):</b> Baseline (2012): 9              target (2017): <6
<b>PUBLIC PROCUREMENT</b>			
The preparation and publication of detailed procedural manuals for the public-procurement supervisory bodies. ( <b>Prior Action 1</b> )  The commencement of annual evaluations of the public procurement system (i.e. annual performance reports). ( <b>Prior Action 2</b> )  The finalization of the 2008, 2009 and 2010 procurement audits and the publication of results. ( <b>Prior Action 3</b> )	The adoption of a decree authorizing the delegation of contract signature to sector ministers in line with the thresholds assigned to ministerial procurement units.	To be determined from the previous year's evaluation.	<b>Average public procurement delay (days):</b>  <b>Goods</b> Baseline (2012): 64      target (2017): <50 <b>Services</b> Baseline (2012): 71      target (2017): <60 <b>Public works</b> Baseline (2012): 59      target (2017): <60

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers	Results
<b>GOVERNANCE</b>			
Appointed and installed the members of the National Anti-Corruption Authority (ANLC). <b>(Prior Action 4)</b>	Implementation of a fully operational system of asset and conflict of interest declaration for all senior public-sector officials and all elected and appointed public officials.  Establishment of a monitoring, reporting and evaluation system for monitoring ANLC efforts against corruption and effectiveness of the anti-corruption legislation.	Verification of declarations made under the system of asset and conflict of interest declarations and the publishing of a report on adherence to the system.  Publication of a progress report on the fight against corruption based on the monitoring, reporting and evaluation system prepared earlier.	<b>Percentage of required public officials that complete a declaration of assets:</b> Baseline (2012): 0 target (2017): 95  <b>Percentage of asset declarations verified:</b> Baseline (2012): 0 target (2017): TBD (prior to PRSC-10)  Further indicators and targets to be selected and tracked from monitoring system to be implemented.  <b>Internal and external audits of customs transactions undertaken:</b> Baseline (2012): No target (2017): Yes
	Implementation of an internal audit system of customs processes and transactions to reduce corruption.	Implementation of an external audit system of customs processes and transactions to reduce corruption and to identify customs officers involved in fraudulent practices.	
The Minister of Development approves and publishes a timetable for implementation of an open data initiative. <b>(Prior Action 5)</b>	Open data initiative fully operational and INSAE micro-data made publicly available.		
<b>Axis 2: Strengthening Private-Sector Competitiveness</b>			
<b>BUSINESS ENVIRONMENT</b>			
Adoption of a ministerial order identifying the Registry of Commerce and Credit ( <i>Registre du Commerce et du Crédit</i> )			<b>Credit registry coverage (%):</b> Baseline (2012): 10.9 target (2017): >20 (of which female %, if avail.) ( ) ( )

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers	Results																												
<i>Mobilier</i> – RCCM) at the Court of First Instance, First Class, of Cotonou ( <i>Tribunal de Première Instance de Première Classe de Cotonou</i> ) as the sole registry for recording all collateral and leasing arrangements. <b>(Prior Action 6)</b>			<p><b>Number of PPP arrangements/contracts entered into:</b> Baseline (2012): 0 target (2017): 6</p> <p><b>Number of formal registered companies:</b> Baseline (2012): 29,386 target (2017): 35,000</p> <p><b>Percentage of labor force in salaried employment:</b> (Source: INSAE) Baseline (2012):</p> <table border="0"> <tr> <td>Total</td> <td>7.0</td> <td>target (2017):</td> <td>9.0</td> </tr> <tr> <td>Urban (male)</td> <td>24.3</td> <td>target (2017):</td> <td>28.0</td> </tr> <tr> <td>Urban (female)</td> <td>8.7</td> <td>target (2017):</td> <td>11.0</td> </tr> <tr> <td>Urban (youth)</td> <td>15.0</td> <td>target (2017):</td> <td>20.0</td> </tr> <tr> <td>Rural (male)</td> <td>5.1</td> <td>target (2017):</td> <td>7.0</td> </tr> <tr> <td>Rural (female)</td> <td>1.3</td> <td>target (2017):</td> <td>2.5</td> </tr> <tr> <td>Rural (youth)</td> <td>2.6</td> <td>target (2017):</td> <td>4.0</td> </tr> </table>	Total	7.0	target (2017):	9.0	Urban (male)	24.3	target (2017):	28.0	Urban (female)	8.7	target (2017):	11.0	Urban (youth)	15.0	target (2017):	20.0	Rural (male)	5.1	target (2017):	7.0	Rural (female)	1.3	target (2017):	2.5	Rural (youth)	2.6	target (2017):	4.0
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Rural (female)	1.3	target (2017):	2.5																												
Rural (youth)	2.6	target (2017):	4.0																												
<p>Submission to the Supreme Court of a Public-Private Partnership (PPP) bill. <b>(Prior Action 7)</b></p> <p>Creation of the Agence Beninoise des Grand Travaux (Agency for National Projects). <b>(Prior Action 8)</b></p>	<p>Submission of a new Labor Code to the National Assembly.</p> <p>Submission of a Competition Act to the National Assembly.</p>																														
Signing of an agreement between the <i>Centres de Gestion Agréé</i> and the tax administration. <b>(Prior Action 9)</b>																															
AGRICULTURAL DIVERSIFICATION AND COTTON REFORM																															
<p>Establishment of an institutional framework for implementation of the PSRSA by having: <b>(prior Action 10)</b></p> <ul style="list-style-type: none"> <li>• Reorganized of the Ministry of Agriculture through the adoption of a decree describing the powers, organization and</li> </ul>	<p>Trigger to be introduced once an approach to cotton-sector reform has been finalized. (prior to PRSC-10)</p> <p>Created the Agency for the Promotion of Agricultural Commodities (ABERPRoFA).</p> <p>Agriculture credit trigger to be</p>	<p>Accreditation of a Central Laboratory for Food Safety according to European Union standards.</p>	<p><b>Number specialized agencies operational under new PSRSA:</b> Baseline (2012): 0 target (2017): 4</p> <p><b>Number of non-cotton agricultural commodities having an inter-professional organization:</b> Baseline 2012: 0 target (2017) : 4</p>																												

PRSC-9 Prior Actions	PRSC-10 Triggers	PRSC-11 Triggers	Results
operation of the Ministry; • Adopted a decree describing the powers, organization and operation of CARDERS.	introduced once an appropriate approach to a guarantee fund and/or research fund has been designed. (prior to PRSC-10)		<b>Percentage of non-cotton farmers having access to extension services through CARDERS:</b> Baseline 2012: TBD Target (2017) : TBD  Agriculture credit result to be introduced
PORT AND CUSTOMS REFORM			
The approval of a decree limiting, regulating and consolidating checkpoints on the Cotonou-Ouagadougou and Cotonou-Niamey road corridors. <b>(Prior Action 11)</b>	To be determined through ongoing technical assistance activities and cooperation. (prior to PRSC-10)	To be determined through ongoing technical assistance activities and cooperation.	<b>Port of Cotonou dwell time (days):</b> Baseline (2012): 27 target (2017): 5  <b>Cost to Export (US\$ per container):</b> Baseline (2012): 1079 target (2017): 10% reduction in real terms  <b>Cost to Import (US\$ per container):</b> Baseline (2012): 1549 target (2017): 10% reduction in real terms  <b>Number of roadblocks per corridor (WATH data):</b> Baseline (2012): 8 target (2017): 3

**Annex 2: Letter of Development Policy**

**REPUBLIQUE DU BENIN**

*Fraternité-Justice-Travail*

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**MINISTRE DE L'ECONOMIE ET DES FINANCES**

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**LETTRE DE POLITIQUE DE DEVELOPPEMENT**

Janvier 2014

## INTRODUCTION

1. La présente lettre de politique de développement décrit le programme de réformes que le Gouvernement entend mener dans le cadre de sa Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP) sur la période 2014-2016, avec l'appui de la Banque Mondiale à travers les Crédits d'Appui à la Réduction de la Pauvreté (PRSC 9-11).

2. Les principales mesures du programme ambitionnent (i) de soutenir l'efficacité et l'impact des dépenses publiques aux fins de l'amélioration des services publics au profit des populations vulnérables et (ii) de renforcer les conditions d'une croissance soutenue pour une réduction significative de la pauvreté.

3. Le présent document s'articule autour des points ci-après : (i) Contexte et évolution récente de l'économie; (ii) Politique de réformes et (iii) Dispositif de coordination, de suivi de la mise en œuvre des politiques de réformes.

### **1 - Contexte et évolution récente de l'économie**

4. Dans le cadre de sa politique de lutte contre la pauvreté, le Gouvernement a adopté, en mars 2011, à la suite d'un processus participatif, une nouvelle génération de Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP 2011-2015). Cette stratégie comprend les cinq axes prioritaires suivants : (i) l'accélération durable de la croissance et de la transformation de l'économie; (ii) le développement des infrastructures; (iii) le renforcement du capital humain; (iv) la promotion de la bonne gouvernance; et (v) le développement équilibré et durable de l'espace national.

5. La SCRP 2011-2015 opérationnalise les Orientations Stratégiques de Développement (OSD) du Gouvernement, elles-mêmes, basées sur la vision de long terme décrite dans les « Etudes Nationales de Perspectives à Long Terme (ENPLT), "Bénin-Alafia 2025" ». Pour la mise en œuvre réussie de cette stratégie, le Gouvernement entend poursuivre certaines réformes cruciales retenues au titre du programme associé aux PRSC 9-11. Ces réformes concernent les domaines où des progrès sont nécessaires pour atteindre les objectifs visés par la stratégie. Il s'agit de (i) la gestion des finances publiques et la gouvernance du secteur public et de (ii) la compétitivité du secteur privé et la diversification de l'économie.

6. La croissance de l'économie nationale s'est consolidée en 2012 à un rythme plus élevé que prévu, le taux de croissance du PIB réel s'établissant à 5,4%. Pour 2013, le taux de croissance du PIB réel devrait s'établir à 6,2% selon les prévisions des services nationaux contre 5,0% pour le FMI. Ce développement est attendu dans un contexte de reflux des tensions inflationnistes. En effet, le taux d'inflation s'est affiché à 1,0% en 2013, en dessous de la barre des 3,0% retenue dans le cadre de la surveillance multilatérale au sein de l'UEMOA.

7. Le programme économique et financier conclu avec le FMI continue de s'exécuter de manière satisfaisante. Le Conseil d'Administration du FMI a ainsi approuvé favorablement les résultats enregistrés au terme de la cinquième revue du programme économique et financier, témoignage des efforts en matière de stabilité du cadre macroéconomique au cours de l'année

2012. La mise en œuvre du programme s'est convenablement poursuivie en 2013 et les différents indicateurs de suivi du programme sont, dans l'ensemble, ressortis en ligne avec ses objectifs à fin septembre 2013.

## **2 - Politiques de réformes**

8. Les réformes retenues dans le programme associé aux PRSC 9-11 pour lequel le Gouvernement sollicite l'appui de la Banque Mondiale portent sur : (i) la gestion des finances publiques et la gouvernance du secteur public et (ii) la compétitivité du secteur privé et la diversification de l'économie.

### ***Gestion des finances publiques et gouvernance du secteur public***

#### ***Les réformes prévues pour le PRSC 9***

9. Le renforcement de la qualité de la gouvernance financière constitue un facteur essentiel pour le succès des stratégies et des actions du Gouvernement. Dans ce cadre, le Gouvernement a promulgué, le 27 septembre 2013, la nouvelle Loi Organique relative aux Lois de Finances (LOLF), votée par l'Assemblée Nationale, le 8 juillet 2013. Cette nouvelle LOLF, découlant de la transposition des directives de l'UEMOA de juin 2009, est basée sur la Gestion Axée sur les Résultats (GAR).

10. En ce qui concerne le processus de passation des marchés publics, les audits 2008, 2009 et 2010 des marchés publics ont été finalisés et leurs résultats ont été publiés sur le site web de l'Autorité de Régulation des Marchés Publics. En complément, il est prévu la mise en œuvre des actions nécessaires au renforcement de sa performance. Il s'agit entre autres : (i) de l'élaboration et la publication des manuels de procédures détaillés des organes de contrôle des marchés publics et (ii) du démarrage des évaluations annuelles du système de passation des marchés publics (rapport de performance annuel). Le Gouvernement entend enfin adopter un décret autorisant la délégation de la signature des contrats relevant du seuil de compétence des Cellules de Contrôle des marchés publics, aux ministres sectoriels, afin de réduire les délais de passation des marchés publics.

11. Par ailleurs, les conditions nécessaires à l'application de la loi portant lutte contre la corruption et autres infractions connexes en République du Bénin ont continué de se mettre en place. Ainsi, les membres de l'Autorité Nationale de Lutte contre la Corruption (ANLC) ont été nommés et installés.

12. En matière de gouvernance de l'information statistique, l'arrêté établissant l'initiative d'ouverture des données ("open data") a été complété par l'approbation et la publication d'un chronogramme pour sa mise en œuvre.

### ***Les réformes prévues pour les PRSC 10 et 11***

13. Dans le domaine de la gestion des finances publiques et de la gouvernance du secteur public, les actions proposées pour consolider les progrès attendus de la mise en œuvre des réformes associées au PRSC 9 concernent : la transposition des directives de l'UEMOA, la mise en œuvre de la loi portant lutte contre la corruption et autres infractions connexes et l'ouverture des données.

14. Dans ce cadre, le programme de réformes lié au PRSC 10 mettra l'accent sur l'adoption des décrets de transposition des directives relatives au Code de Transparence dans la gestion des Finances Publiques, au Règlement Général sur la Comptabilité Publique (RGCP), à la Nomenclature du Budget de l'Etat (NBE), au Plan Comptable de l'Etat (PCE) et au Tableau des Opérations Financières de l'Etat (TOFE). A ces mesures, s'ajoutera la réduction, à un (1) mois, de la période complémentaire pour l'exécution du budget.

15. En ce qui concerne la mise en œuvre de la loi portant lutte contre la corruption et autres infractions connexes, une attention particulière sera accordée à la mise en place (i) d'un système pleinement opérationnel de déclaration de biens et conflits d'intérêt pour tous les hauts fonctionnaires de l'administration publique, tous les élus et autres responsables nommés, (ii) d'un système de suivi, de rapportage et d'évaluation des efforts de lutte contre la corruption de l'ANLC et (iii) d'un système d'audit interne des processus et transactions douanières en vue de réduire la corruption.

16. Enfin, les dispositions seront prises pour assurer la disponibilité des données de l'INSAE au public et pour rendre pleinement opérationnelle l'initiative d'ouverture des données.

17. Pour leur part, les réformes relatives au PRSC 11 viseront à accroître la transparence budgétaire, notamment la mise en œuvre de la directive portant code de transparence. Elles auront également pour objectif, l'informatisation de la chaîne de la dépense et la mise à jour des applications informatiques, conformément au nouveau cadre harmonisé des finances publiques, notamment la LOLF, la NBE et le PCE.

18. Au plan de la lutte contre la corruption, trois actions prioritaires seront privilégiées : (i) la vérification des déclarations faites par les hauts fonctionnaires et la publication d'un rapport sur l'adhésion des intéressés au système de déclaration de biens et conflits d'intérêt, (ii) la publication d'un rapport d'avancement de la lutte contre la corruption basé sur le système de suivi, de rapportage et d'évaluation susvisé et (iii) la mise en application d'un système d'audit externe des processus et transactions douanières dans le but de réduire la corruption et d'identifier les agents des douanes impliqués dans les pratiques frauduleuses.

### **Compétitivité du secteur privé et diversification de l'économie**

#### ***Les réformes prévues pour le PRSC 9***

19. Dans le cadre de la dynamisation du secteur privé, les mesures relatives à l'amélioration du climat des affaires nécessaires pour le développement et la compétitivité des entreprises ont été soutenues par l'adoption d'un arrêté interministériel, le 24 mai 2013, qui désigne le Registre

du Commerce et du Crédit Mobilier (RCCM) du Tribunal de Première Instance de Première Classe de Cotonou comme l'unique registre où devront être effectuées toutes les opérations relatives aux sûretés mobilières et au crédit-bail. Deux autres mesures ont été réalisées : la transmission à la Cour Suprême du projet de Loi sur le Partenariat Public Privé (PPP), la création de l'Agence Béninoise des Grands Travaux (ABGT) et la signature d'une convention liant les Centres de Gestion Agréés et l'administration fiscale.

20. S'agissant de la diversification de l'économie, les mesures prises concernent la poursuite de l'amélioration de la productivité et de la production agricole et le développement des filières, conformément au Plan Stratégique de Relance du Secteur Agricole (PSRSA). Les actions mises en œuvre par le Gouvernement ont consisté à la réorganisation du cadre institutionnel du Ministère chargé de l'Agriculture à travers la prise du décret portant Attributions, Organisation et Fonctionnement dudit Ministère; à la prise du décret portant Création, Attributions, Organisation et Fonctionnement des Centres Agricoles Régionaux pour le Développement Rural (CARDER).

21. Enfin, le Gouvernement entend réduire les tracasseries routières à travers l'adoption du décret portant réglementation des postes de contrôle routiers sur les corridors Cotonou-Ouagadougou et Cotonou-Niamey.

### ***Les réformes prévues pour les PRSC10 et 11***

22. Pour les PRSC 10 et 11, les actions de réformes prévues concerneront la consolidation du programme de réformes proposé au titre du PRSC 9 tant au niveau de l'amélioration du climat des affaires que de la diversification de l'économie.

23. Ainsi, le programme prévu pour le PRSC 10 aura pour objectifs : (i) la création de la structure gouvernementale chargée d'identifier, d'élaborer, de négocier et de mettre en œuvre les projets de partenariats public-privé; (ii) la soumission à l'Assemblée Nationale du projet de nouveau code du travail et (iii) la soumission à l'Assemblée Nationale du projet de loi sur la concurrence. Au niveau de la diversification de l'économie, les actions viseront la création de l'Agence Béninoise pour la Promotion des Filières Agricoles (ABéProFA).

24. En dehors du renforcement des actions susmentionnées, les actions du PRSC 11 seront orientées notamment vers l'accréditation du laboratoire central de sécurité sanitaire des aliments suivant les normes de l'Union Européenne.

25. Le Gouvernement s'engage à mettre en œuvre ces actions de réformes qui faciliteront l'atteinte des résultats de la Stratégie de Croissance pour la Réduction de la Pauvreté ainsi que la réussite du programme associé aux PRSC 9-11. Les actions décrites ci-dessus pourraient, au besoin, être complétées par de nouvelles réformes, en collaboration avec la Banque Mondiale, notamment pour les PRSC 10 et 11.

### **3 - Dispositif de coordination, de suivi de la mise en œuvre des politiques de réformes**

26. Le présent programme sera exécuté sous la supervision du Ministère de l'Economie et des Finances, à travers la Cellule de Suivi des Programmes Economiques (CSPEF), en collaboration étroite avec les Ministères sectoriels et autres structures concernées par les domaines de

concentration du programme. La Banque Mondiale effectuera également des revues du programme. Il sera maintenu un dialogue régulier avec la Banque Mondiale dans le cadre du suivi de la mise en œuvre des actions prévues. Par la présente, le Gouvernement s'engage à prendre toutes les dispositions nécessaires pour mettre en œuvre les mesures et actions ci-dessus retenues et réitère sa demande auprès de la Banque Mondiale pour la mise en place du financement sollicité.



**Jonas A. GBIAN**  
(Ministre de l'Economie et des Finances)

REPUBLIC OF BENIN

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**MINISTRY OF ECONOMY AND FINANCE**  
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**LETTER OF DEVELOPMENT POLICY**

January 2014

## INTRODUCTION

1. This letter of development policy outlines the reform program that the Government intends to implement under its Growth for Poverty Reduction Strategy (SCRP) for the period 2014-2016, with the support of the World Bank through Poverty Reduction Support Credits (PRSC 9-11) for 2014.
2. The program's key actions seek to (i) enhance the effectiveness and impact of public expenditure with a view to improving public services for the poorest; and (ii) accelerate efforts to foster the conditions for sustained growth in order to significantly reduce poverty.
3. This letter of development policy is organized around the following points: (i) context and recent developments; (ii) reform policy; and (iii) the mechanism for coordinating and monitoring implementation of the reform policies.

### **I. Context and recent economic developments**

4. As part of its policy to reduce poverty, in March 2011, following a participatory process, the Government adopted a new generation growth and poverty reduction strategy (SCRP 2011-2015), which has the following five priority areas: (i) accelerated sustainable growth and economic transformation; (ii) infrastructure development; (iii) strengthening of human capital; (iv) the promotion of good governance; and (v) balanced and sustainable national development.
5. The SCRP 2011-2015 operationalizes the Government's Strategic Development Guidelines (OSD), which are based on the long-term vision outlined in the "National Long-Term Prospective Studies (ENPLT) - Benin Alafia 2025." To ensure the successful implementation of this strategy, the Government intends to continue implementing critical reforms included under PRSC 9-11. These reforms relate to areas where progress is vital for the achievement of the objectives outlined in the strategy, including: (i) public financial management and public sector governance; and (ii) strengthening private sector competitiveness and economic diversification.
6. The growth of the national economy strengthened in 2012 at a pace stronger than expected; the rate of real GDP growth stood at 5.4%. For 2013, real GDP growth should be 6.2% according to national agency forecasts against those of the IMF of 5.0%. This is expected in a context of receding inflationary pressures. In fact, inflation in 2013 was 1.0%, below the WAEMU criteria of 3.0%.
7. The economic and financial program concluded with the IMF is being satisfactorily implemented. Indeed, the IMF's Board of Executive Directors approved the results achieved at the end of the fifth review of the economic and financial program, evidence of efforts to maintain macroeconomic stability in 2012. The implementation of the program has continued in 2013 and program performance criteria are, on the whole, in line with program objectives to the end of September 2013.

## **II. Reform Policies**

8. The reforms contained in the PRSC 9-11 program for which the Government is requesting World Bank support relate to: (i) public financial management and public sector governance; and (ii) strengthening private sector competitiveness and economic diversification.

### **Public financial management and public sector governance**

#### **Reforms Implemented under the PRSC-9**

9. Strengthening the quality of governance is an essential factor for the success of Government strategies and actions. In this context, the Government promulgated on September 27, 2013, the new Organic Law on Finance (LOFL), passed by the National Assembly, July 8, 2013. This new LOFL, arising from the implementation of the WAEMU directives in June 2009, is based on a Results Based Management (RBM) approach.

10. Regarding procurement processes, procurement audits for 2008, 2009 and 2010 were completed and results have been published on the website of the Regulatory Authority for Public Procurement. In addition, actions required to improve future procurement performance are planned. These actions include, among other things: (i) the development and publication of detailed manuals of procedures for the public procurement supervisory bodies; and (ii) the start of annual evaluations of system procurement (annual performance reports). The Government intends to finally adopt a decree authorizing the delegation of contract signature to sector ministers in line with the thresholds assigned to ministerial procurement units, in order to reduce procurement delays.

11. Moreover, the conditions for application of the anti-corruption law and related offenses in the Republic of Benin continued to be implemented. Members of the National Anti-Corruption Authority (ANLC) were appointed and installed.

12. In terms of governance of statistical information, the ministerial order establishing the open data initiative will be completed by the approval and publication of a timetable for its implementation.

#### **Planned reforms for PRSC 10 and 11**

13. In the area of public financial management and public sector governance, the proposed actions to consolidate the progress expected from the implementation of PRSC 9 reforms include: implementation of WAEMU directives; implementation of the anti-corruption law and other related offenses; and an open data initiative.

14. In this context, the reform program linked to PRSC 10 will focus on the adoption of decrees implementing directives related to the Transparency Code in Public Finance Management, General Regulations on Public Accounts (RGCP), to Nomenclature of State Budget (NBE), the Accounting Plan of the State (PCE) and the Table of Financial Operations

(TOFE). To these measures will be added the reduction, to one (1) month, of the period for final budget execution.

15. Concerning implementation of the Anti-Corruption Law and other related offences, particular attention will be given to the establishment of: (i) a fully operational system of asset and conflict of interest declarations for all senior government officials and all elected and appointed officials; (ii) a system of monitoring, reporting and evaluation for monitoring ANLC efforts against corruption; and (iii) implementation of an internal audit system of customs processes and transactions in order to reduce corruption.

16. Finally, arrangements will be made to ensure the availability of INSAE data to the public and to fully operationalize the open data initiative.

17. PRSC 11 reforms aim to increase budget transparency, including implementation of the transparency code directives. Reforms will also seek to computerize the expenditure chain and updating of financial IT applications in line with the new harmonized framework for public finances, including the LOLF, RGCP and PCE.

18. In terms of the fight against corruption, three priority actions are to be taken: (i) verification of the declarations made by senior officials and publication of a report on adherence to the system of asset and conflict interest declarations; (ii) publication of a progress report on the fight against corruption based on the monitoring, reporting and evaluation system referred to above; and (iii) implementation of an external audit system of customs processes and transactions in order to reduce corruption and to identify customs officers involved in fraudulent practices.

## **Private Sector Competitiveness and Economic Diversification**

### **Planned reforms for PRSC 9**

19. As part of the revitalization of the private sector, measures to improve the business enabling environment necessary for private sector competitiveness have been supported by the adoption of an inter- ministerial order of May 24, 2013, which establishes the Registry of Commerce and Credit (RCCM) of the Court of First Instance Class Cotonou as sole registry for security and leasing arrangements. Two other measures have been taken: transmission to the Supreme Court of the draft Law on Public Private Partnerships (PPP), the creation of the Beninese Agency Public Works (ABGT) and the signing of an agreement between Certified Management and Accounting Centers and the tax administration.

20. Regarding the diversification of the economy, measures taken include the pursuit of improved productivity and agricultural production and value chain development, through the Strategic Program for Reform of the Agricultural Sector (PSRSA). The actions taken by the Government include the reorganization of the Ministry of Agriculture's institutional framework through approval of a decree establishing the Ministry's structure and operation and approval of an order establishing the responsibilities, organizations and functions of the Regional Rural Development Centers (CARDERS).

21. Finally, the Government intends to reduce road harassment through the adoption of a decree regulating checkpoints on the Cotonou-Ouagadougou and Cotonou-Niamey road corridors.

### **Planned reforms for PRSC 10 and 11**

22. For PRSC 10 and 11 planned actions concern the consolidation of reforms proposed under the PRSC 9 aimed at both improving the business climate and diversification of the economy.

23. The program for the PRSC 10 will seek to: (i) create the governmental unit to identify, develop, negotiate and implement public-private partnership projects; (ii) submit to the National Assembly a draft new Labor Code; and (iii) submit to the National Assembly a draft Competition Act. In order to diversify the economy, actions will seek to create the Beninese Agency for the Promotion of Agricultural Commodities (ABEPRoFA) and measures to facilitate access to finance for the agricultural sector.

24. Apart from strengthening the above actions, PRSC 11 actions will be oriented particularly towards accreditation of a central laboratory for food safety in accordance with the standards of the European Union.

25. The Government is committed to the implementation of these reforms, which will facilitate the achievement of the Growth Strategy for Poverty Reduction results and the success of the program associated with the PRSC 9-11. The reform actions described above, however, could be complemented, particularly in the PRSC 10 and 11, in collaboration with the World Bank, by the inclusion of additional reforms.

### **III. The mechanism for coordinating and monitoring implementation of the reform policies**

26. The Minister of Economy and Finance will supervise execution of this program through the Economic Program Monitoring Unit (Cellule de Suivi des Programmes Economiques CSPEF), in close collaboration with line ministries and other entities involved in the program's areas of focus. The World Bank will also conduct program reviews. Regular dialogue will be maintained with the World Bank to ensure monitoring of the implementation of the proposed actions. The Government hereby undertakes to take all the necessary steps to implement the aforementioned measures and actions, and reiterates its request to the World Bank for the related financial support.

Jonas A. GBIAN  
(Minister of Economy and Finance)

### **Annex 3: Fund Relations Note**

#### **IMF Executive Board Completes Fifth Review Under ECF Arrangement for Benin and Approves US\$16.1 Million Disbursement and Arrangement Extension**

Press Release No.13/317

August 28, 2013

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Benin's economic program under the Extended Credit Facility (ECF). The decision enables the immediate disbursement of an amount equal to SDR 10.61 million (about US\$16.1 million), bringing total disbursements under the arrangement to the equivalent of SDR 63.67 million (about US\$96.8 million). In completing the review, the Board also approved a request for an extension of the arrangement, which was set to expire in September 2013, through April 2014 to allow for a rephrasing of the final disbursement and associated review. The extension will allow time to implement the authorities' new customs reform agenda.

The ECF arrangement for Benin was approved on June 14, 2010 (see [Press Release No. 10/243](#)) for the equivalent of a total of SDR 74.28 million (about US\$113million).

At the conclusion of the Executive Board's discussions, Mr. Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"Benin's macroeconomic performance under the ECF arrangement continues to be strong. Growth has been higher than expected because of the recovery in commerce and agriculture, and inflation has returned to below 3 percent. The government has addressed its structural reform backlog. Several long-delayed structural benchmarks under the ECF have been implemented, including the use of the taxpayer identification number at customs.

"The economic outlook is generally positive, but subject to internal and external risks arising from heavy dependence on weather conditions and vulnerability to trade policy decisions in Nigeria because an estimated 80 percent of Benin's imports are informally re-exported to Nigeria.

"The authorities remain committed to prudent fiscal policies which will be complemented by reforms to strengthen the revenue base. In particular, customs reform will be revamped by replacing the overreliance on external customs operators by a new approach that aims at developing customs administration's own capacity. Over the medium-term, the dependency on customs revenues should be reduced by strengthening the domestic revenue base.

"Enhancing the soundness of the financial sector would contribute to economic growth. In this context, it will be important to speed up the resolution of troubled banks, address weaknesses in supervision, and promote easier access to bank credit.

"Accelerated structural reforms are needed to turn the positive 2012 growth outcome into a sustainable trend and to reach the growth rates necessary to reduce poverty in a country with the population growing at 3.5 percent a year. In line with the Poverty Reduction Strategy Paper update currently under preparation, the authorities are rightly focusing on increasing infrastructure investment crucial for accelerating growth. Thanks to prudent fiscal policies, Benin's debt level offers some fiscal space to increase investment. To ensure that the rise in spending delivers results, the quality of spending would also need to be improved further," Mr. Shinohara stated.

#### **IMF COMMUNICATIONS DEPARTMENT**

##### **Public Affairs**

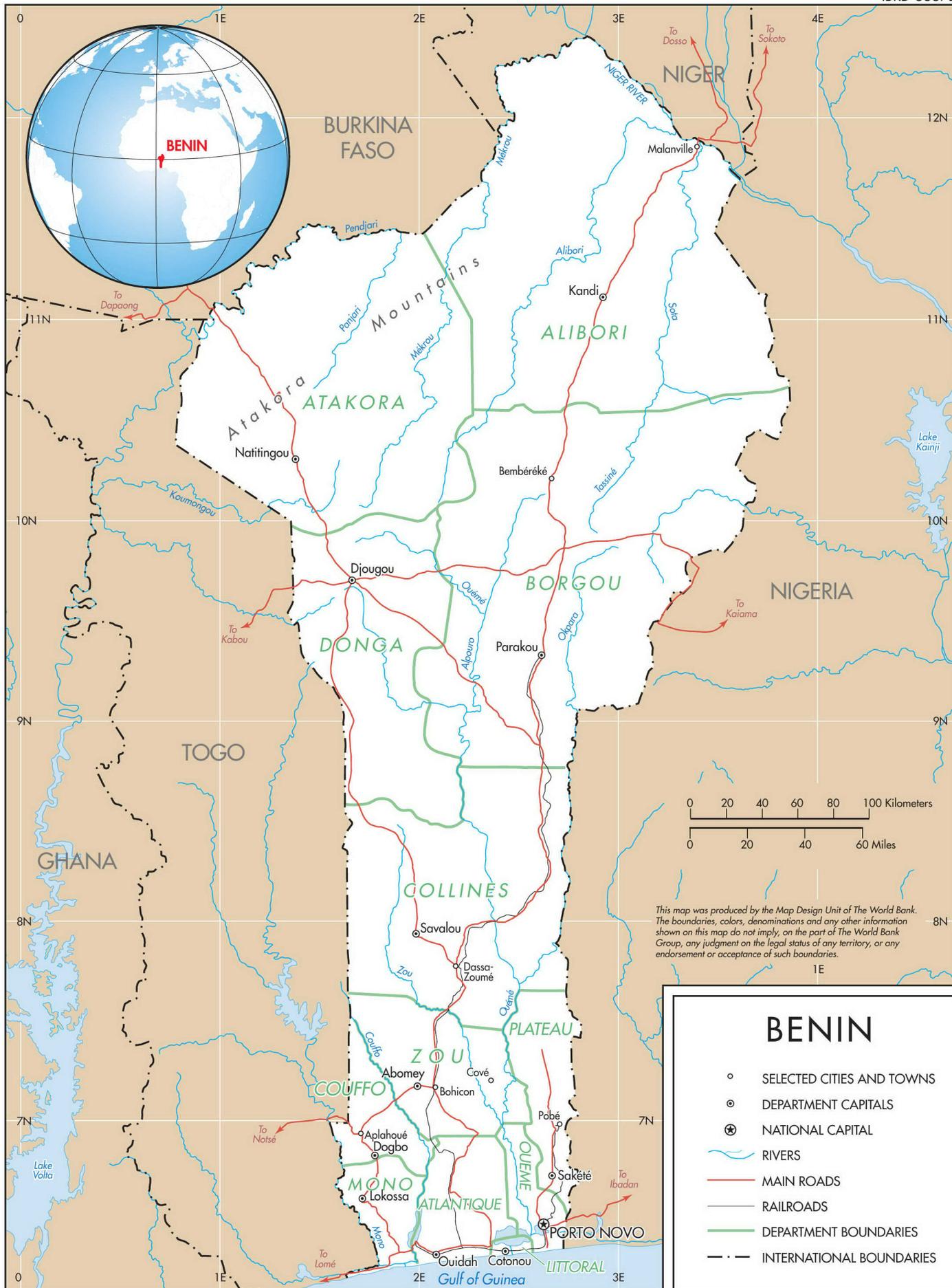
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## BENIN

- SELECTED CITIES AND TOWNS
- ⊙ DEPARTMENT CAPITALS
- ⊕ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- DEPARTMENT BOUNDARIES
- - - INTERNATIONAL BOUNDARIES