FOR AGENDA

EBS/08/131

November 26, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Benin—Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria**

Attached for consideration by the Executive Directors is the paper on the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility for Benin, and Benin's request for a waiver of nonobservance of performance criteria, which is tentatively scheduled for discussion on **Friday, December 12, 2008**. A draft decision appears on page 44. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Benin indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Mongardini (ext. 38569) and Mr. Youm (ext. 38588) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, December 8, 2008; and to the African Development Bank, the European Commission, the Islamic Development Bank, and the West African Economic and Monetary Union, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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BENIN

Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

Prepared by the African Department
(In consultation with other departments)

Approved by Robert J. Corker and Anthony Boote

November 25, 2008

- Discussions for the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement with Benin were held in Cotonou September 10-24, 2008. The mission comprised Messrs. Mongardini (Head), Youm, Samaké and Ms. Maziad (All AFR) and was assisted by Mr. Yao (Resident Representative). Mr. Mpatswe (OED) participated.

- The mission met with President Yayi, Senior Minister for Development Koupaki, Finance Minister Lawani, other senior government officials, and representatives of the private sector, nongovernmental organizations, labor unions, and the donor community.

- The three-year arrangement under the PRGF was approved on August 5, 2005, in the amount of SDR 6.19 million (10 percent of quota), and extended to August 4, 2009. The Board approved a 15 percent augmentation (SDR 9.29 million) of access in concluding the fourth review to help Benin adjust to the food and fuel crisis. Completion of the fifth review would allow the disbursement of an additional SDR 0.88 million. The last Article IV Consultation was concluded on June 16, 2008.

- In the attached letter of intent, the Beninese authorities are requesting completion of the fifth review under the PRGF arrangement, and waivers for two missed performance criteria on net domestic financing and nonconcessional borrowing.

- Benin is a member of the West African Economic and Monetary Union (WAEMU) and shares a fixed exchange rate and common external tariff with other members. Monetary and exchange rate policies are conducted by the regional central bank.

- The main authors of this report are Messrs. Mongardini, Youm, Samaké, Ms. Maziad, Mr. Mahyoub, and Ms. Vibar.

Contents

Executive Summary

Benin's economic growth continues to strengthen, but the global financial crisis represents a significant downside risk. The main challenge going forward is to limit inflationary pressures from higher food and fuel prices, while sustaining medium-term fiscal consolidation and accelerating structural reforms to increase the sustainable growth rate.

On current assumptions, the macroeconomic outlook remains favorable. Real GDP growth is expected to strengthen to 5.1 and 5.7 percent in 2008 and 2009, respectively, following an increase of 4.6 percent in 2007. Inflation soared to 12.0 percent year-on-year in September 2008, after averaging 1.3 percent in 2007, although core inflation remains moderate. The external current account is expected to widen from 7.4 percent of GDP in 2007 to 10.4 percent of GDP in 2008, reflecting the terms of trade shock. However, the external position remains comfortable.

The authorities have taken actions to address the food and fuel crisis and accelerate structural reforms. Since July 2008, they have allowed the full pass-through of higher international food and fuel prices and tightened fiscal policy, while putting in place measures to protect the poor. They have also canceled the tax reductions introduced at end-2007 to reduce the impact of higher food and fuel prices. In October 2008, the government privatized a minority stake in its cotton ginning activities and the last state-owned bank, while recruiting consultants for the privatization of Benin telecom and a cement factory.

Two performance criteria were missed under the program. The unexpected clearance of large government commitments (1.0 percent of GDP) in the first half of 2008 led to the breaching of the end-June performance criterion on net domestic financing by the same amount. In October 2008, the authorities also contracted a SDR 5.1 million nonconcessional loan from a development partner, which they are in the process of renegotiating. To offset these slippages under the program, the authorities have stopped all expenditure commitments in October 2008, except for urgent priority spending, and are renegotiating the terms of the nonconcessional loan to ensure higher concessionality. On that basis, staff recommends the completion of the fifth review under the PRGF arrangement.

I. Recent Economic Developments and Program Performance

Benin continues to be one of the fastest growing economies in the WAEMU

Real GDP Growth

	2005	2006	2007	2008[1]
Benin	**2.9**	**3.8**	**4.6**	**5.1**
Burkina Faso	7.1	5.5	4.0	4.5
Côte d'Ivoire	1.9	0.7	1.6	2.9
Guinea-Bissau	3.2	1.8	2.5	3.2
Mali	6.1	5.3	2.8	5.0
Niger	7.4	5.2	3.2	4.4
Senegal	5.6	2.3	4.8	5.3
Togo	1.3	4.1	2.1	2.5
WAEMU average	4.4	3.6	3.2	4.1

Sources: Country authorities and IMF staff estimates and projections.
[1]Projections.

1. **Benin's economic growth has continued to strengthen** (Figure 1). Despite severe energy shortages and delays in implementing structural reforms, economic growth is expected to increase to 5.1 percent in 2008, up from 4.6 percent in 2007. Growth is driven by buoyant activity in the Port of Cotonou and strong demand from neighboring Nigeria.

Inflation in 2008 will breach the WAEMU convergence criterion

CPI Inflation

	2005	2006	2007	2008[1]
Benin	**5.4**	**3.8**	**1.3**	**8.8**
Burkina Faso	6.4	2.3	-0.2	10.2
Côte d'Ivoire	3.9	2.5	1.9	5.8
Guinea-Bissau	1.7	3.8	4.6	6.5
Mali	6.4	1.0	0.6	8.1
Niger	7.8	0.0	0.0	7.3
Senegal	1.7	2.1	5.9	3.7
Togo	6.8	2.2	1.0	6.9
WAEMU average	5.0	2.2	1.9	7.2

Sources: Country authorities and IMF staff estimates and projections.
[1]Projections.

2. **Food and fuel prices are driving up headline inflation, but core inflation remains moderate** (Figure 2). Following the authorities' decision in July 2008 to apply the full pass-through of international food and fuel prices, inflation soared to 12 percent year-on-year in September 2008. This, combined with the earlier CFA franc appreciation, resulted in the real effective exchange rate (REER) appreciating by 6.6 percent over the same period. This trend has since been reversed, reflecting the recent depreciation of the CFA franc against the dollar. The REER remains broadly in line with its equilibrium level.[1]

Benin's reserve coverage remains the highest in WAEMU

WAEMU: Gross Reserves 1/

	2005	2006	2007	2008
Benin	**7.9**	**11.5**	**12.5**	**12.6**
Burkina Faso	3.6	4.0	5.0	5.0
Cote d'Ivoire	2.2	2.7	2.5	2.4
Guinea-Bissau	5.4	6.4	5.2	6.1
Mali	4.6	4.6	3.8	3.9
Niger	2.8	3.4	3.5	3.9
Senegal	3.6	3.3	2.7	3.2
Togo	1.7	2.9	2.4	2.0
WAEMU average	4.0	4.8	4.7	4.9

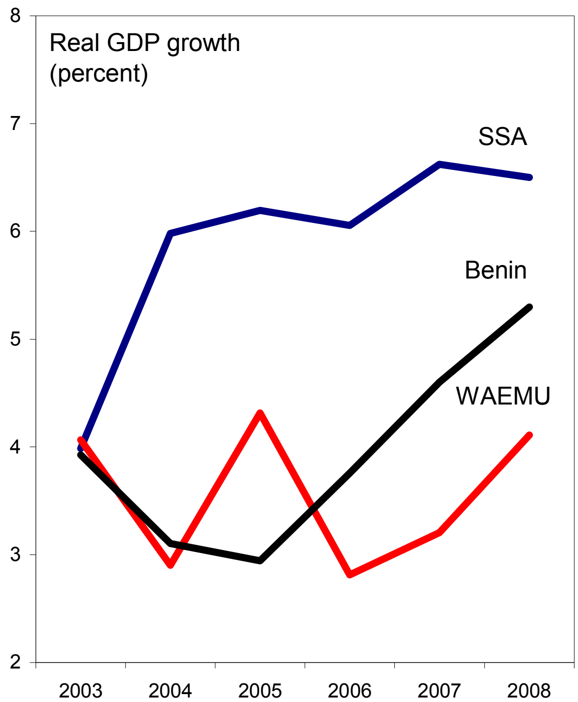
Sources: Country authorities and IMF staff estimates and projections.
[1] Months of prospective import of goods and non-factor services.
Data for 2008 are Fund staff projections.

3. **Worsening terms of trade and weak cotton exports will likely widen the external current account to 10.4 percent of GDP in 2008 (Figure 3).** Foreign direct investment inflows and additional donor assistance (including from the Fund), are helping limit the decline in gross official reserves, with reserve cover dipping just below 8 months of prospective imports.

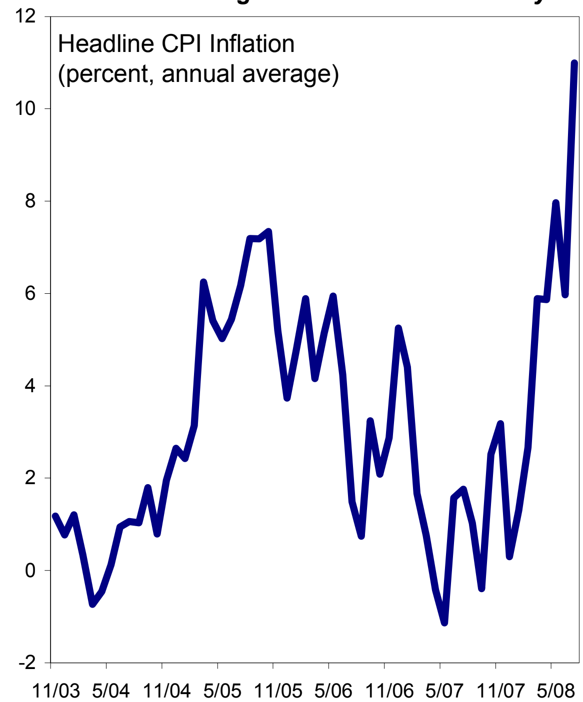
[1] See the 2008 Article IV Consultation (IMF Country Report 08/230) for a full analysis of competitiveness in Benin.

Figure 1. Benin: Macroeconomic Performance, 2003–08

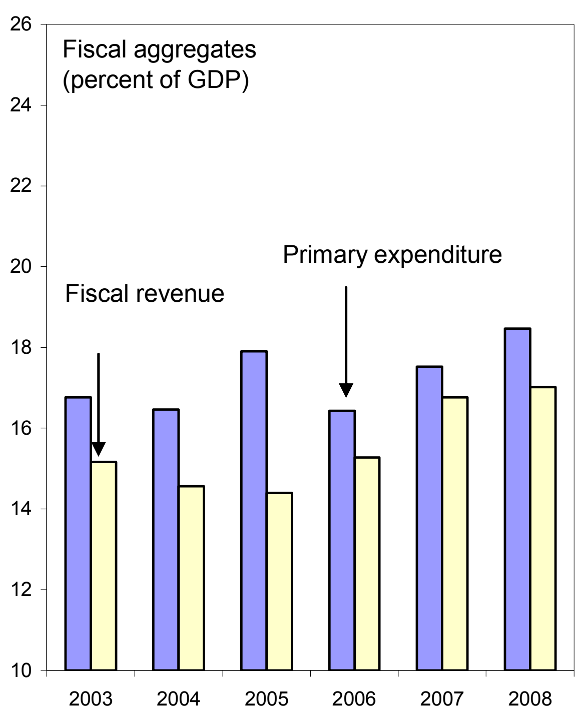
Growth is strengthening.



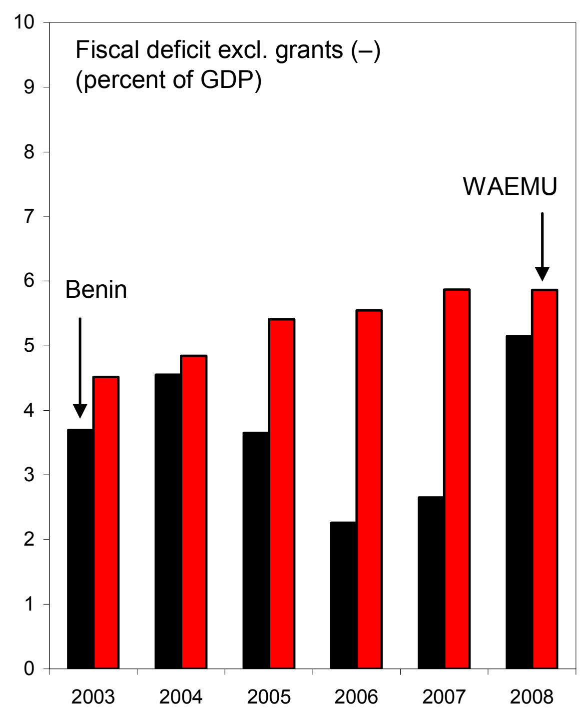
However, higher food and fuel prices are testing macroeconomic stability…



…and putting pressure on public spending...

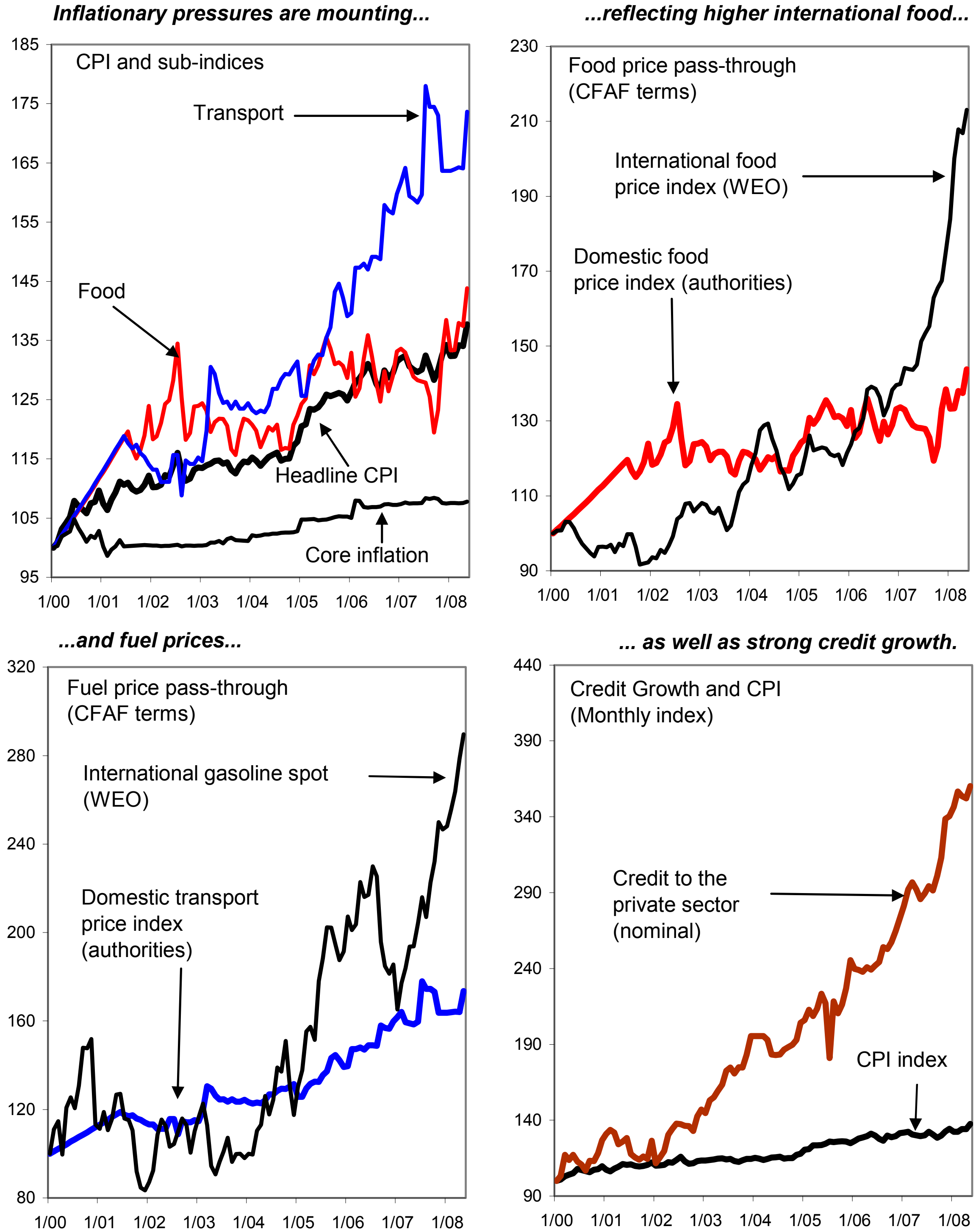


...and the overall deficit is rising



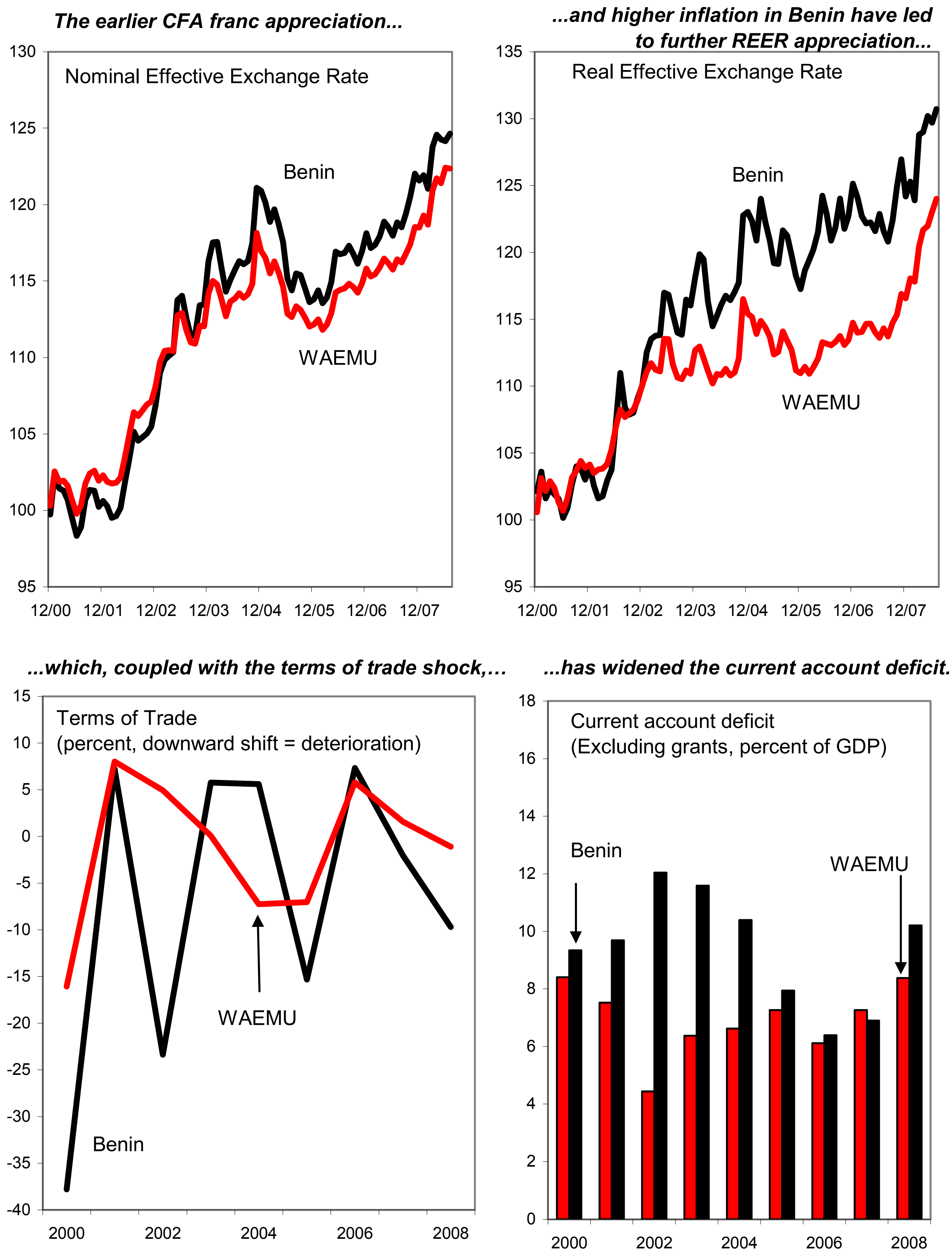
Source: Beninese authorities and Fund staff estimates.

Figure 2. Benin: Price Developments, 2000–2008
(January 2000 = 100)



Source: Beninese authorities and Fund staff estimates.

Figure 3. Benin: Selected Competitiveness Indicators, 2000–2008



Source: Beninese authorities and Fund staff estimates.

The food and fuel crisis cost the budget 1.4 percent of GDP in the first half of 2008

Budgetary Cost of Food and Fuel Crisis

	Billions of CFAF	Percent of GDP
Revenue loss	25	0.9
Energy subsidies	15	0.5
Total	40	1.4

Source: Beninese authorities and Fund staff estimates.

4. **Higher capital spending and current transfers are being more than offset by strong revenue performance**. Accelerated execution of infrastructure projects and large transfers caused large expenditure overruns (2.2 percent of GDP) in the first semester of 2008. However, strong revenue collections more than offset the loss incurred from tax reductions on energy products, cement, and food staples.

Benin's reserve requirement ratio at 15 percent is the highest in the WAEMU

Reserve Requirements on Demand Deposits

	2004	2005	2006	2007
Benin	**13.0**	**15.0**	**15.0**	**15.0**
Burkina Faso	3.0	7.0	7.0	7.0
Côte d'Ivoire	5.0	5.0	5.0	5.0
Guinea-Bissau	3.0	3.0	3.0	3.0
Mali	9.0	9.0	9.0	9.0
Niger	5.0	9.0	9.0	9.0
Nigeria	9.5	0.0	0.0	0.0
Senegal	9.0	9.0	9.0	9.0
Togo	3.0	3.0	3.0	3.0
WAEMU average	6.3	7.5	7.5	7.5

Source: Banque Centrale des Etats d'Afrique de l'Ouest, BCEAO.

5. **Broad money growth accelerated to an annualized rate of 20 percent in the first six months of 2008, fueled by domestic credit expansion.** Net domestic assets rose by 17 percent of broad money at end-June 2008, reflecting large net government borrowing and a significant rise in credit to the private sector.

The authorities have taken remedial actions to offset slippages under the program

6. **Two quantitative performance criteria were missed under the program**. As the authorities cleared outstanding commitments from 2007 and remained current on their payments, the end-June 2008 quantitative performance criterion on net domestic financing was missed by CFAF 29.1 billion (1 percent of GDP). As a remedial action, the government stopped all expenditure commitments in October 2008, except for urgent priority spending, in order to meet the end-2008 target. The authorities also contracted a SDR 5.1 million (0.1 percent of GDP) loan from a development partner in September 2008, which was below the concessionality threshold of 35 percent under the program. The loan has not become effective and the authorities are now renegotiating its terms to ensure higher concessionality.

All structural benchmarks for end-June 2008 have been met

7. **The structural reform agenda is finally on course.** In October 2008, the authorities concluded the privatization of 33.5 percent of the SONAPRA ginneries[2] and 56.4 percent shares in Continental Bank-Benin owned by the government and other public entities. They also recruited consultants for the privatization of Benin Telecom. The recruitment of a resident port management expert has been implemented on time. The authorities have undertaken an audit of the public finance management (PFM) information systems, prepared a medium-term strategy to strengthen PFM, and advanced the preparation of a strategy for the civil service pension fund. The draft outline of the new cotton sector strategy is being reviewed by stakeholders. Fund staff has joined other development partners in providing joint comments to the authorities calling for a more market-based strategy.

II. Macroeconomic Outlook and Policies for 2008/09

The challenge is to contain inflationary pressures and increase sustainable growth

8. **Benin currently faces three main challenges**:

- Keeping inflationary pressures from the food and fuel crisis under control;
- Sustaining fiscal consolidation to support medium-term macroeconomic stability, while introducing well-targeted social safety nets to offset the impact of the food and fuel crisis on the poor; and
- Maintaining the renewed structural reform momentum to improve competitiveness and achieve higher sustainable growth.

[2] The government will retain a 33.5 percent stake in the newly established ginning company. An additional 17.8 percent stake will be sold through an initial public offering in the regional stock market. The remaining shares will be distributed to local authorities, cotton producers, and workers.

Growth is expected to catch up to the average for Sub-Saharan African countries

9. **The medium-term outlook remains favorable, but the global financial crisis poses a significant downside risk**. Supported by continued structural reforms, Benin's economic growth should reach 6 percent over the medium term (Figure 4). Prudent fiscal policy and the fixed exchange rate anchor should bring inflation back below 3 percent by 2010. Fiscal consolidation will continue through sustained efforts to increase tax collection, contain primary expenditures, and stabilize the primary surplus. The external current account would widen, while the external position would remain comfortable. The baseline is consistent with the latest WEO assumptions and projections, including those for growth in Nigeria, an important source of trade and remittances for Benin. FDI is also expected to hold up given ongoing projects and Benin's long-term growth prospects. However, if the global downturn proves protracted, Benin's growth rate would be adversely affected. The unexpectedly large reversal of food and fuel prices could also bring about a faster reduction in inflation.

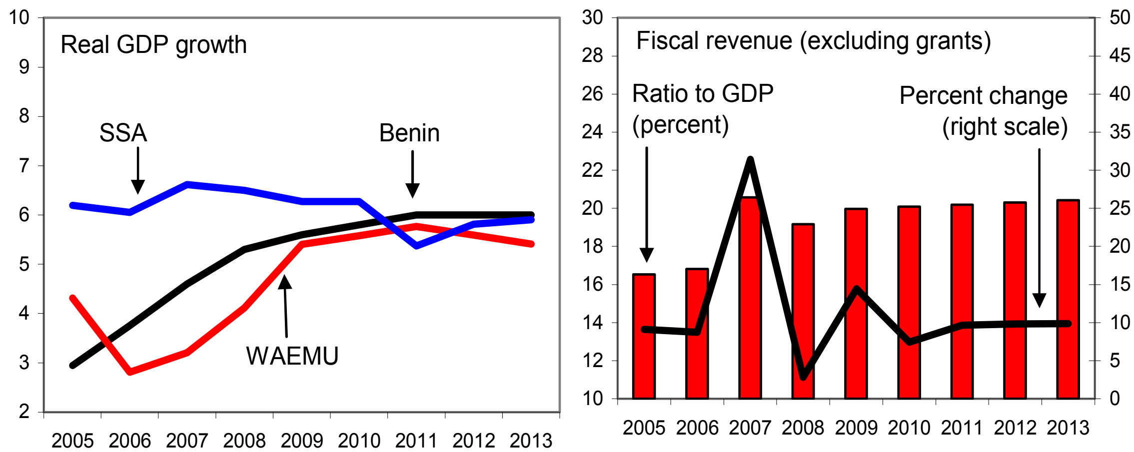
A. The Food and Fuel Crisis

The authorities have taken onboard earlier Fund advice to allow the full pass-through of higher international food and fuel prices

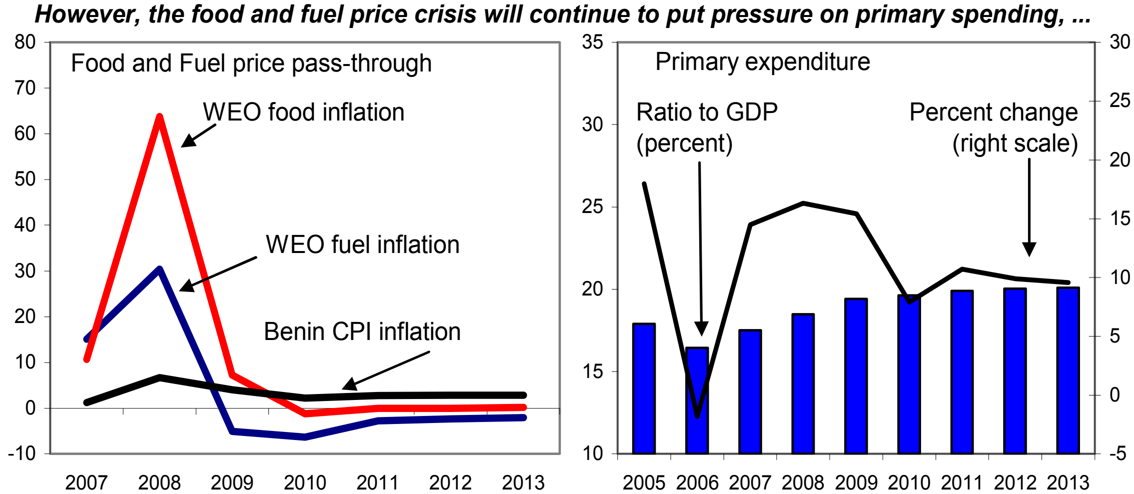
10. **The government has allowed the full-pass through of higher international food and fuel prices since July 2008**. The government instead opened new local government shops to provide subsidized food to low-income areas, hospitals, and schools. Based on advice from development partners, it is also considering measures to provide conditional cash transfers and free school meals and uniforms. The revised projections accommodate the additional spending on social safety nets financed mostly by a grant under the World Bank Food Price Crisis Response (FPCR) Trust Fund and additional assistance from other development partners.

Figure 4. Benin: Macroeconomic Outlook, 2005–13

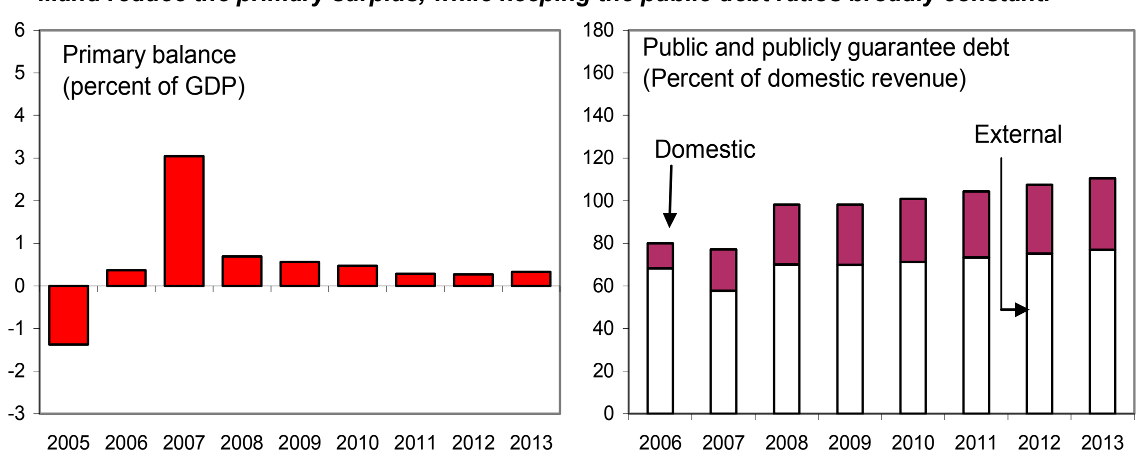
Growth is expected to catch up the SSA average, and fiscal revenues will remain buoyant. [1/]



However, the food and fuel price crisis will continue to put pressure on primary spending, ...



...and reduce the primary surplus, while keeping the public debt ratios broadly constant.



Source: Beninese authorities and Fund staff estimates and projections.
1/ Fiscal revenue excludes the one-off revenue in 2007 from the sale of the telecom licenses.

Benin's fuel prices were increased by 24 percent in July, but remain below the WAEMU average

Retail Prices for Selected Petroleum Products

	Gasoline		Diesel	
	Dec-07	Latest	Dec-07	Latest
	(CFA francs per liter)			
Benin /1	**476**	**500**	**410**	**480**
Burkina Faso	634	670	571	603
Cote d'Ivoire	615	615	545	545
Guinea-Bissau	n/a	665	n/a	665
Mali	618	650	533	570
Niger	598	670	558	664
Nigeria	264	250	385	365
Senegal	689	774	652	746
Togo	525	505	515	500
WAEMU average	593	631	540	597

Sources: Country authorities and IMF staff estimates and projections.

11. **Fuel prices now reflect international prices and developments in Nigeria**. The automatic price adjustment mechanism was reinstated in July 2008 and applicable excise taxes have since been adjusted to keep the price differential with Nigeria and other WAEMU countries within a set band.[3] Subsidies from the budget have been eliminated. To protect low-income households, kerosene continues to be subsidized through higher levies on gasoline. Recent declines in international food and fuel prices, if sustained, should also provide relief.

A more prudent fiscal stance for the remainder of 2008 should reduce the risk of "second round" effects from the full pass-through

12. **Inflationary pressures from the pass-through require a prudent fiscal stance for the remainder of 2008**. The authorities shared the staff's assessment that containing expenditures to reach a higher-than-programmed primary surplus of 0.7 percent of GDP by end-2008 would limit "second round" effects of higher food and fuel prices on inflation. Accordingly, they froze all expenditure commitments in October 2008, except for urgent priority spending. They are also holding the line against trade unions' wage demands. They wish to retain the wage ceiling under the program until a civil service reform is put in place with technical assistance from the World Bank and other donors, following a comprehensive analysis of the government compensation system to be completed by end-June 2009.

The financing needs for 2009 could be covered by additional donor assistance

13. **For now, staff does not see additional financing needs related to the food and fuel crisis.** The authorities' efforts to raise revenue and contain expenditure have reduced the 2008 fiscal needs to a level fully covered by external assistance. However, full-year implementation of social safety net measures and the negative effects of the global financial crisis may result in larger balance of payments needs in 2009.

[3] Unofficial fuel imports from Nigeria represent more than two thirds of the gasoline supply in Benin. Excise taxes are adjusted to increase the market share of official imports.

B. Fiscal Policy to Preserve Macroeconomic Stability and Debt Sustainability

Higher tax efforts would allow an increase in capital spending of 19 percent in 2009.

14. **Fiscal policy over the medium term aims at preserving fiscal sustainability, while allowing a significant increase in infrastructure spending**. Consistent with this goal, the draft 2009 budget aims at a primary surplus of 0.6 percent of GDP, reflecting also the need to contain inflationary pressures. Tax administration efforts would continue to yield additional revenue, enabling public spending to increase to 24 percent of GDP. The implementation of the PFM action plan should facilitate better targeting of pro-poor and capital spending. The overall fiscal deficit would be limited to 4.1 percent of GDP, and be mostly financed by grants and concessional lending.

Maintaining debt sustainability requires further structural reforms to strengthen growth

Benin: Selected Public Debt Indicators, 2007–28
(Percent, unless otherwise indicated)

	Indicative thresholds	2007	Baseline Scenario			
			2008	2013	2009–13 [1]	2014-28 [1]
		Act.	Projections			
External						
Debt service to revenue	30.0	2.5	3.1	2.7	2.9	4.5
Debt service to exports	20.0	4.4	5.1	4.7	5.0	7.3
NPV of Debt to revenue	250.0	37.7	40.4	55.0	49.2	66.5
NPV of debt to exports	150.0	66.0	65.8	95.5	84.7	108.1
NPV of debt to GDP	40.0	7.8	7.8	11.2	9.9	13.5
Fiscal						
Debt service to revenue			3.8	5.8	5.7	8.6
NPV of debt to revenue			57.1	73.4	66.1	91.1
NPV of debt to GDP			12.6	16.9	15.1	21.0
Memorandum items:						
Public Debt to GDP [2]		12.5	12.6	17.3	15.6	17.9

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

[1] Simple average.

[2] External PPG debt-to-GDP (post-MDRI).

15. **The updated debt sustainability analysis suggests that Benin's debt burden, though low, remains subject to moderate risk of debt distress**. Following the granting of Enhanced HIPC and MDRI debt relief in 2006, Benin's debt burden indicators are significantly below the relevant thresholds of debt distress, but could breach the threshold on the NPV of debt to exports ratio in the medium term in a no-reform scenario. Staff alerted the authorities to the upward pressure on debt ratios arising from nonconcessional borrowing in the regional financial market.

The Gleneagles commitments for Benin would imply an average increase of 2.5 percent of GDP in additional aid over 2008-10

Benin: Gleneagles Scenario and MDG, 2008–10
(percent of GDP)

	2008	2009	2010	Total 2008–10
	(Deviations from the baseline)			
MDG spending requirements	1.2	2.5	4.0	7.6
Fiscal revenue impact	0.0	0.0	0.2	0.3
Total additional financing needs	1.1	2.4	3.8	7.3
Memorandum Items:				
Total aid commitment	6.6	7.7	8.9	23.2
Baseline commitment	5.5	5.3	5.1	15.9
Additional/Gleneagles envelope	1.1	2.4	3.8	7.3

Source: UNDP and Fund staff projections.

16. **Benin is one of the U.N. pilot countries for the scaling up of aid to make progress towards the Millennium Development Goals (MDGs).** Fund staff discussed an assessment of a doubling of aid to $85 per person by 2010 with the authorities and development partners.[4] Short-run demand effects and medium-term productivity effects are estimated to lead to an average 0.7 percentage point higher growth per year over the next 10 years. However, significant inflationary pressures in the short run would appreciate the REER by 5.2 percent relative to the baseline. Under the assumption of an 80 percent grant-component of the additional aid, the debt–to–GDP ratio would increase by 2.7 percentage points over the baseline scenario, posing only a moderate threat to debt sustainability. Noting that the government has limited administrative capacity to handle the envisaged doubling of aid, the mission argued for a phased scaling up of spending to go in tandem with the implementation of PFM and structural reform measures to ease capacity constraints.

C. Structural Reforms to Restore Competitiveness

The authorities have significantly accelerated structural reforms in the last few months

17. **An acceleration of structural reforms remains critical to strengthen competitiveness and reach higher sustainable growth**. The deteriorating terms of trade and the appreciation of the real exchange rate reinforce the call for bringing forward some of the key reforms, including on cotton, utilities, port and financial sector. Reforms to expand and modernize the Port of Cotonou are on course, with technical and financial assistance from the U.S. Millennium Challenge Account. The authorities also agreed to include two additional structural benchmarks in the area of tax collection, the strengthening of which is critical to creating additional fiscal space to support economic development.

[4] See "The Macroeconomics of Scaling-Up Aid: The Cases of Benin, Niger, and Togo" at http://www.imf.org/external/pp/longres.aspx?id=4283.

The cotton sector reform strategy should be more market-oriented

18. **The authorities' draft reform strategy falls short of the reforms necessary to modernize the cotton sector**. The mission worked closely with Bank staff and other development partners to provide advice to the authorities on the details of the strategy. It argued for an end of government intervention in commercial activities in the cotton sector, a limitation of its role to providing extension services to farmers, and ensuring observance of the new regulatory framework. Government guarantees for cotton crop credit would no longer be needed as the private sector assumes full responsibility for the management of the new ginning company.

Most banks do not meet the new minimum own resources requirement

Prudential Indicators: Number of compliant banks

Indicators	Coefficient	End-2007
1. Own resources requirement	>= 1 Billion CFAF	4/12
2. Risk-adjusted own resources	>= 8%	8/12
3. Liquidity coefficients	>= 75%	8/12
4. Portfolio structure	>= 60%	0/12
5. Coverage of medium and long term loans	>= 75%	4/12
6. Loan to bank managers	<= 20%	9/12
7. Risk concentration		
Threshold on global lending	<= 8*FPE	3/12
Threshold on single borrower	<= 75% * FPE	…

Source: Banque Centrale des Etats de l'Afrique de l'Ouest.

19. **The authorities are taking steps to improve compliance with prudential indicators.** The mission discussed with the authorities the conclusions of the regional FSAP and the steps envisaged to improve bank soundness, particularly in light of the risks posed by the rapid credit growth. The authorities agreed to request an FSAP mission to Benin to follow up on the regional FSAP, with particular emphasis on the soundness of microfinance institutions and possible contagion from the global financial crisis.

III. Risks to the Program

The global financial crisis could reduce aid and growth

20. **Two main risks could affect implementation of the program**. First, the authorities are cognizant that the global financial crisis could have a negative impact on the Benin economy in the near future. In addition to the risks of reduced demand for exports and a fall in FDI, the authorities were concerned that donor support could be scaled back. They and the mission agreed to monitor the situation closely and adjust the program in the event of a significant decline in growth. Second, the lack of political support for the ambitious reform agenda could stall program implementation. Benin will continue to need Fund support to reach emerging market status. A strong performance in the last year of the current program would support the authorities' interest in a successor arrangement.

IV. Staff Appraisal

21. **Benin's economic performance has improved significantly**. The challenge for the authorities will be to ensure that the inflationary surge from higher food and fuel prices quickly dissipates, and to reach higher growth by keeping the momentum on fiscal consolidation and structural reforms. The global financial crisis adds considerable uncertainty to Benin's otherwise favorable outlook. Relatively low debt ratios and a comfortable reserve position provide some insurance against potential exposure.

22. **Sustaining fiscal reforms is critical for increasing growth and reducing poverty**. Higher tax collections, together with civil service and PFM reforms, will be key to creating additional space to respond to urgent infrastructure needs and increasing pro-poor spending.

23. **Preserving Benin's competitiveness and boosting growth rests on the acceleration of structural reforms**. The authorities are to be commended for accelerating structural reforms in recent months. Pressing ahead with the remaining reform agenda is critical to improve the delivery of public services, lower production costs, and alleviate capacity constraints.

24. **Building consensus and ownership is key to sustaining the momentum for the program**. This will require a constructive and on-going dialogue with all political stakeholders.

25. **Staff recommends the completion of the fifth review of the PRGF arrangement**. It supports the authorities' request for a waiver for the nonobservance of the missed performance criteria, in view of their temporary nature, their minimal impact on debt sustainability, and the authorities' remedial actions in reining in spending in the second half of 2008 and renegotiating the nonconcessional loan agreement.

Table 1. Benin: Selected Economic and Financial Indicators, 2006–13

	2006	2007	2008		2009		2010	2011	2012	2013
		Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.	Projections			
	(Annual changes in percent, unless otherwise indicated)									
National income										
GDP at current prices	6.9	7.4	8.1	12.3	8.5	10.6	6.8	9.2	9.2	9.2
GDP at constant prices	3.8	4.6	5.3	5.1	5.6	5.7	5.9	6.0	6.0	6.0
GDP deflator	3.1	2.6	2.7	6.9	2.7	4.6	0.8	3.0	3.0	3.0
Consumer price index (average)	3.8	1.3	2.9	8.8	2.7	6.5	2.8	2.8	2.8	2.8
Consumer price index (end of period)	5.3	0.3	5.5	13.1	2.7	3.7	3.3	2.8	2.8	2.8
Production of cotton (in '000 of tons) 1/	240.6	268.6	312.5	237.9	346.2	268.3	302.6	335.2	371.4	411.4
Central government finance										
Revenue	8.7	31.4	-3.3	5.5	13.0	13.6	7.5	9.7	9.9	9.9
Expenditure and net lending	-1.1	21.0	12.2	19.3	10.0	13.6	7.7	10.7	10.1	9.8
Money and credit										
Net domestic assets 2/	-4.1	-0.9	6.2	17.8	6.7	15.4	9.5	8.9	8.8	8.8
Domestic credit 2/	-2.6	-3.4	6.2	17.8	6.7	15.4	9.5	8.9	8.8	8.8
Net claims on central government 2/	-7.3	-16.4	-0.5	-0.5	-0.5	0.1	-0.4	-0.4	-1.5	-1.6
Credit to the nongovernment sector 2/	4.6	13.0	6.7	18.3	7.2	15.3	9.9	9.3	10.2	10.5
Broad money	16.5	17.7	8.3	14.1	8.6	12.0	9.8	9.2	9.2	9.2
Velocity (GDP relative to average M2)	3.3	3.0	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8
External sector (in terms of CFA francs)										
Exports, f.o.b.	-18.3	10.7	13.2	19.1	13.5	7.6	11.7	12.8	11.9	12.3
Imports, f.o.b.	6.8	16.5	14.5	32.2	8.8	1.6	2.1	6.5	7.2	7.8
Export volume	-24.8	12.5	9.8	9.5	9.3	6.6	9.7	9.5	9.5	9.5
Import volume	4.4	12.8	5.4	5.2	6.0	6.3	7.0	8.8	8.8	8.8
Terms of trade (minus = deterioration)	-7.8	-1.6	-5.0	-13.5	1.2	5.5	6.7	5.2	3.7	3.5
Nominal effective exchange rate (minus = depreciation)	-0.3	2.6	...	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	1.1	0.9	...	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
Basic ratios										
Gross investment	18.1	21.4	22.1	23.1	22.4	23.9	24.3	24.9	25.2	25.5
Government investment	4.6	7.4	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Private sector investment	13.6	13.9	14.1	15.0	14.3	15.1	15.3	15.5	15.5	15.5
Gross domestic saving	6.8	9.2	9.9	8.0	10.7	10.6	12.3	13.5	14.2	15.0
Government saving	2.4	4.8	5.5	5.8	4.9	5.8	7.3	8.6	7.1	7.3
Nongovernment saving	4.4	4.4	4.4	2.3	5.8	4.8	5.0	4.9	7.1	7.7
Gross national saving	12.4	14.7	15.2	13.5	15.9	15.8	17.4	18.6	19.1	20.0
Central government finance										
Revenue	16.8	20.6	18.4	19.3	19.2	19.8	20.0	20.1	20.2	20.3
Expenditure and net lending	19.5	22.0	22.8	23.3	23.1	24.0	24.2	24.5	24.7	24.8
Primary balance 3/	-2.3	-1.2	-4.0	-3.6	-3.6	-3.8	-3.8	-4.1	-4.2	-4.2
Basic balance (narrowly defined) 4/	0.4	3.0	0.5	0.7	1.0	0.6	0.5	0.2	0.1	0.1
Overall fiscal deficit (payment order basis, excl. grants)	-2.7	-1.4	-4.4	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.5
Overall fiscal deficit (cash basis, excluding grants)	-2.3	-0.8	-5.1	-5.4	-4.5	-5.1	-5.1	-5.2	-4.8	-4.7
Debt service (after debt relief) in percent of rev. 5/ 6/	3.6	2.5	5.4	3.1	4.2	2.7	2.9	3.0	3.1	2.7
External sector										
Trade balance	-10.4	-11.6	-11.4	-14.3	-11.2	-12.8	-11.7	-11.1	-10.6	-10.2
Current account balance (including grants)	-5.7	-6.7	-6.9	-9.6	-6.5	-8.2	-6.9	-6.3	-6.1	-5.6
Current account balance (excluding grants)	-6.4	-7.4	-7.5	-10.4	-7.2	-8.8	-7.5	-6.8	-6.5	-6.1
Overall balance of payments	4.7	3.2	0.7	-1.2	0.6	-1.3	-0.7	-0.8	-0.8	-0.6
Debt-service to exports ratio 6/	5.7	4.4	8.2	5.1	8.2	4.7	5.0	5.2	5.4	4.7
Debt-to-GDP (post MDRI)	11.5	12.5	13.4	12.6	14.0	13.6	14.8	15.7	16.5	17.3
Gross reserves in months of imports 7/	9.2	8.5	...	7.9	...	7.2	6.8	6.4	6.1	5.7
Nominal GDP (in billions of CFA francs)	2,481.0	2,663.8	2,880.7	2,991.4	3,124.8	3,309.2	3,534.5	3,859.3	4,214.7	4,602.1
CFA francs per U.S. dollar (period average)	522.4	478.6	...	...	...	...	...	...	...	...
Population (midyear, in millions)	7.6	7.9	8.1	8.1	8.3	8.4	8.6	8.9	9.2	9.5

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

1/ Cotton production for T-1/T season. Production of cotton seed in crop year T-1/T affects agricultural production in year T-1, while industry, services, and exports of ginned cotton in year T.
2/ In percent of broad money at the beginning of the period.
3/ Total revenue minus all expenditure, excluding interest due.
4/ Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.
5/ Interest payment only.
6/ The 2006 projections incorporate the MDRI resources for the IMF, IDA and AfDF in stock operations.
7/ Months of prospective import of goods and non factor services.

Table 2 . Benin: Consolidated Central Government Operations, 2006–13

	2006	2007	2008			2009		2010	2011	2012	2013
	Act.	Est.	June	Dec.		Dec.		Projections			
			Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.				
	(In billions of CFA francs)										
Total revenue	416.9	548.0	285.7	530.1	578.0	598.9	656.7	705.8	774.4	851.1	935.2
Tax revenue	378.8	446.7	247.6	468.0	511.0	528.7	578.6	622.8	686.5	755.4	831.1
Tax on international trade	207.4	250.1	131.8	256.2	287.7	294.8	328.0	351.0	384.0	420.2	459.8
Direct and indirect taxes	171.4	196.6	115.8	211.8	223.3	233.9	250.7	271.8	302.4	335.1	371.3
Nontax revenue	38.1	101.3	38.1	62.1	67.0	70.2	78.0	83.0	88.0	95.7	104.1
Total expenditure and net lending	483.8	585.3	294.5	656.8	698.1	722.4	793.2	854.0	945.6	1,041.2	1,143.5
Current expenditures	369.2	386.7	202.8	426.5	453.8	470.2	501.7	536.4	585.0	631.0	681.2
Current primary expenditures	359.2	381.6	197.2	414.9	441.9	458.4	490.1	524.3	572.4	617.9	667.4
Wages	135.0	143.1	79.1	164.6	171.7	176.9	190.2	203.1	221.8	242.2	264.5
Pensions and scholarships	29.3	34.3	16.6	37.1	40.2	40.0	47.3	51.3	56.0	61.1	66.6
Transfers and current expenditures	194.9	204.3	101.6	213.3	230.0	241.5	252.6	269.8	294.6	314.7	336.3
Current transfers	102.2	106.1	59.2	103.3	116.2	112.1	121.8	130.1	142.0	147.4	152.9
Other current expenditure	92.7	98.1	42.3	110.0	113.7	129.4	130.8	139.7	152.6	167.3	183.5
Interest	10.1	5.1	5.6	11.6	11.9	11.8	11.6	12.2	12.6	13.1	13.8
Internal debt	0.2	0.0	3.3	5.6	5.6	5.6	5.6	4.7	3.9	3.1	2.3
External debt	9.9	5.0	2.3	6.0	6.4	6.2	6.0	7.4	8.7	10.0	11.5
Capital expenditures and net lending	114.6	198.6	91.7	230.3	244.3	252.2	291.5	317.6	360.6	410.2	462.2
Investment	113.4	198.4	87.7	230.3	244.3	252.2	291.5	317.6	360.6	410.2	462.2
Financed by domestic resources	48.6	85.2	50.4	100.4	114.3	109.8	147.7	163.9	192.9	227.0	262.2
Financed by external resources	64.8	113.2	37.3	129.9	130.0	142.4	143.8	153.6	167.8	183.2	200.0
Net lending (minus = reimbursement)	1.2	0.2	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-66.9	-37.3	-8.8	-126.7	-120.1	-123.5	-136.6	-148.2	-171.2	-190.2	-208.3
Basic primary balance 1/	9.2	81.1	38.0	14.7	21.8	30.7	18.9	17.6	9.2	6.1	5.6
Primary balance	-56.8	-32.2	-3.3	-115.2	-108.2	-111.7	-124.9	-136.0	-158.6	-177.1	-194.4
Change in arrears	-15.0	-30.9	-3.2	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-15.0	-30.9	-3.2	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
Payments during complementary period/float 2/	25.8	47.5	-87.9	-4.0	-27.2	-3.4	-15.9	-17.1	-13.5	1.6	4.7
Overall balance (cash basis, excl. grants)	-56.1	-20.7	-99.9	-145.7	-162.3	-141.9	-167.5	-180.3	-199.7	-203.6	-218.6
Financing	56.1	20.7	100.0	145.8	162.3	141.9	160.0	152.1	165.4	163.3	182.6
Domestic financing	-48.4	-128.4	44.0	-12.3	-12.3	-23.5	-7.6	-22.5	-21.7	-34.9	-26.1
Bank financing	-50.1	-131.7	40.3	-5.1	-5.1	-4.9	0.6	-5.0	-5.1	-21.3	-26.1
Nonbank financing	1.7	3.3	3.7	-7.2	-7.2	-18.5	-8.2	-17.5	-16.5	-13.5	0.0
Privatization	0.0	4.1	0.0	0.0	0.0	0.0	10.3	0.0	0.0	0.0	0.0
Restructuring	-5.7	0.7	-5.2	-6.0	-6.0	-5.0	-5.0	-4.0	-3.0	0.0	0.0
Other	7.5	-1.4	8.9	-1.2	-1.2	-13.5	-13.5	-13.5	-13.5	-13.5	0.0
External financing	104.5	149.1	56.0	158.0	174.6	165.4	167.6	174.7	187.1	198.1	208.7
Project financing	64.8	113.2	37.3	129.9	130.0	142.4	143.8	153.6	167.8	183.2	200.0
Grants	37.6	60.6	5.6	68.8	68.1	76.1	75.3	80.4	87.8	95.9	104.7
Loans	27.2	52.6	31.7	61.1	62.0	66.3	68.6	73.2	80.0	87.3	95.3
Amortization due	-548.5	-8.7	-3.9	-12.5	-11.7	-12.7	-11.8	-13.2	-14.8	-16.8	-28.4
Program aid	18.1	44.6	22.5	40.6	56.2	35.6	35.6	34.2	34.1	31.7	37.1
Grants	18.1	18.3	4.7	15.9	22.8	22.6	22.6	21.2	21.1	17.2	22.6
Loans	0.0	26.3	17.9	24.7	33.4	13.0	13.0	13.0	13.0	14.5	14.5
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	7.5	28.2	34.3	40.3	36.0
Memorandum items:	(In percent of GDP, unless otherwise indicated)										
Total grants and revenue	19.0	23.5	9.9	21.3	22.4	22.3	22.8	22.8	22.9	22.9	23.1
Grants	2.2	3.0	0.3	2.9	3.0	3.2	3.0	2.9	2.8	2.7	2.8
Revenue	16.8	20.6	9.5	18.4	19.3	19.2	19.8	20.0	20.1	20.2	20.3
Total expenditure	19.5	22.0	9.8	22.8	23.3	23.1	24.0	24.2	24.5	24.7	24.8
Of which: wage bill	5.4	5.4	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Of which: Capital expenditure	4.6	7.4	3.1	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Overall balance (payment order basis, excl. grants)	-2.7	-1.4	-0.3	-4.4	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.5
Overall balance (payment order basis, incl. grants)	-0.5	1.6	0.0	-1.5	-1.0	-0.8	-1.2	-1.3	-1.6	-1.8	-1.8
Primary balance	-2.3	-1.2	-0.1	-4.0	-3.6	-3.6	-3.8	-3.8	-4.1	-4.2	-4.2
Basic balance 1/	0.4	3.0	1.3	0.5	0.7	1.0	0.6	0.5	0.2	0.1	0.1
Current balance	1.9	6.1	0.0	3.6	4.2	4.1	4.7	4.8	4.9	5.2	5.5
GDP (in billions of CFA francs)	2,481.0	2,663.8	2,991.4	2,880.7	2,991.4	3,124.8	3,309.2	3,534.5	3,859.3	4,214.7	4,602.1

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

1/ Total revenue minus total expenditure, excluding investment financed from abroad, interest payments and net lending.

2/ Payment orders curried over to the following fiscal year.

Table 3 . Benin: Consolidated Central Government Operations, 2006–13
(Percent of GDP)

	2006	2007	2008			2009		2010	2011	2012	2013
		Est.	June	Dec.		Dec.		Projections			
			Prel. Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.				
Total revenue	16.8	20.6	9.5	18.4	19.3	19.2	19.8	20.0	20.1	20.2	20.3
Tax revenue	15.3	16.8	8.3	16.2	17.1	16.9	17.5	17.6	17.8	17.9	18.1
Tax on international trade	8.4	9.4	4.4	8.9	9.6	9.4	9.9	9.9	10.0	10.0	10.0
Direct and indirect taxes	6.9	7.4	3.9	7.4	7.5	7.5	7.6	7.7	7.8	8.0	8.1
Nontax revenue	1.5	3.8	1.3	2.2	2.2	2.2	2.4	2.3	2.3	2.3	2.3
Total expenditure and net lending	19.5	22.0	9.8	22.8	23.3	23.1	24.0	24.2	24.5	24.7	24.8
Current expenditures	14.9	14.5	6.8	14.8	15.2	15.0	15.2	15.2	15.2	15.0	14.8
Current primary expenditures	14.5	14.3	6.6	14.4	14.8	14.7	14.8	14.8	14.8	14.7	14.5
Wages	5.4	5.4	2.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Pensions and scholarships	1.2	1.3	0.6	1.3	1.3	1.3	1.4	1.5	1.5	1.4	1.4
Transfers and current expenditures	7.9	7.7	3.4	7.4	7.7	7.7	7.6	7.6	7.6	7.5	7.3
Current transfers	4.1	4.0	2.0	3.6	3.9	3.6	3.7	3.7	3.7	3.5	3.3
Other current expenditure	3.7	3.7	1.4	3.8	3.8	4.1	4.0	4.0	4.0	4.0	4.0
Interest	0.4	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Internal debt	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
External debt	0.4	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Capital expenditures and net lending	4.6	7.5	3.1	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Investment	4.6	7.4	2.9	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Financed by domestic resources	2.0	3.2	1.7	3.5	3.8	3.5	4.5	4.6	5.0	5.4	5.7
Financed by external resources	2.6	4.2	1.2	4.5	4.3	4.6	4.3	4.3	4.3	4.3	4.3
Net lending (minus = reimbursement)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-2.7	-1.4	-0.3	-4.4	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.5
Basic primary balance	0.4	3.0	1.3	0.5	0.7	1.0	0.6	0.5	0.2	0.1	0.1
Primary balance	-2.3	-1.2	-0.1	-4.0	-3.6	-3.6	-3.8	-3.8	-4.1	-4.2	-4.2
Change in arrears	-0.6	-1.2	-0.1	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.6	-1.2	-0.1	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Payments during complementary period/float	1.0	1.8	-2.9	-0.1	-0.9	-3.4	-0.5	-0.5	-0.3	0.0	0.1
Overall balance (cash basis, excl. grants)	-2.3	-0.8	-3.3	-5.1	-5.4	-4.5	-5.1	-5.1	-5.2	-4.8	-4.7
Financing	2.3	0.8	3.3	5.1	5.4	4.5	4.8	4.3	4.3	3.9	4.0
Domestic financing	-2.0	-4.8	1.5	-0.4	-0.4	-0.8	-0.2	-0.6	-0.6	-0.8	-0.6
Bank financing	-2.0	-4.9	1.3	-0.2	-0.2	-0.2	0.0	-0.1	-0.1	-0.5	-0.6
Nonbank financing	0.1	0.1	0.1	-0.2	-0.2	-0.6	-0.2	-0.5	-0.4	-0.3	0.0
Privatization	0.0	0.2	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Restructuring	-0.2	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Other	0.3	-0.1	0.3	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.3	0.0
External financing	4.2	5.6	1.9	5.5	5.8	5.3	5.1	4.9	4.8	4.7	4.5
Project financing	2.6	4.2	1.2	4.5	4.3	4.6	4.3	4.3	4.3	4.3	4.3
Grants	1.5	2.3	0.2	2.4	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Loans	1.1	2.0	1.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Amortization due	-22.1	-0.3	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.6
Program aid	0.7	1.7	0.8	1.4	1.9	1.1	1.1	1.0	0.9	0.8	0.8
Grants	0.7	0.7	0.2	0.6	0.8	0.7	0.7	0.6	0.5	0.4	0.5
Loans	0.0	1.0	0.6	0.9	1.1	0.4	0.4	0.4	0.3	0.3	0.3
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	23.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.8	0.9	1.0	0.8

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

Table 4. Benin: Balance of Payments, 2006–13

	2006 1/	2007	2008		2009		2010	2011	2012	2013
	Act.	Act.	Prog.	Rev. Proj.	Prog.	Rev. Proj.				
	(In billions of CFA francs)									
Trade balance 2/	-257.3	-308.0	-328.9	-427.5	-348.9	-423.7	-413.5	-426.5	-445.8	-467.8
Exports, f.o.b.	139.8	154.7	187.5	184.3	212.8	198.2	221.5	249.7	279.4	313.6
Cotton and textiles	56.1	64.6	72.3	74.3	88.6	67.6	75.4	84.6	89.3	98.0
Other	83.7	90.1	115.2	110.0	124.2	130.6	146.0	165.1	190.1	215.6
Imports, f.o.b.	-397.1	-462.8	-516.4	-611.8	-561.7	-621.9	-635.0	-676.2	-725.2	-781.4
Of which: petroleum products	-69.1	-106.6	-154.4	-160.7	-158.6	-180.4	-181.1	-191.1	-202.2	-213.9
Services (net)	-23.5	-16.6	-24.0	-23.9	-16.6	-18.0	-10.0	-11.4	-16.6	-17.5
Credit	141.3	158.7	170.2	170.6	183.1	180.7	193.7	204.3	212.5	225.3
Debit	-164.8	-175.3	-194.1	-194.5	-198.7	-197.6	-203.6	-215.7	-229.1	-242.7
Income (net)	-15.4	-13.5	-14.6	-12.7	-16.4	-13.8	-16.4	-19.4	-22.1	-26.4
Of which: interest due on government debt	-9.9	-5.0	-6.0	-6.4	-6.2	-6.0	-7.4	-8.7	-10.0	-11.5
Current transfers (net)	154.9	159.9	167.3	176.9	179.7	185.4	197.4	214.3	227.5	255.6
Unrequited private transfers	79.2	85.3	87.4	88.6	94.9	96.1	107.0	116.0	125.0	137.1
Public current transfers	75.7	74.6	79.8	88.3	84.8	89.2	90.4	98.3	102.5	118.5
Of which: program grants	18.1	18.3	15.9	22.8	22.6	22.6	21.2	21.1	17.2	22.6
Current account balance	-141.3	-178.2	-200.2	-287.2	-202.3	-270.1	-242.5	-243.1	-257.0	-256.1
Current account balance (excl. program grants)	-159.3	-196.5	-216.1	-310.0	-224.9	-292.7	-263.7	-264.2	-274.2	-278.7
Capital account balance	607.8	60.6	68.8	68.1	76.1	75.3	80.4	87.8	95.9	104.7
Official project grants 3/	37.6	60.6	68.8	68.1	76.1	75.3	80.4	87.8	95.9	104.7
Debt cancellation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital transfers (MDRI grants)	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF (Stock operation)	31.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank (IDA) & AfDB (stock op.)	538.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	-350.7	203.7	151.4	184.3	146.2	150.8	137.8	125.3	127.0	121.5
Medium- and long-term public capital	-517.4	74.2	82.4	92.8	70.6	73.7	77.1	82.2	89.0	85.4
Disbursements	31.1	82.9	94.9	104.5	83.3	85.6	90.2	97.0	105.8	113.8
Loans	31.1	56.6	70.2	71.1	70.3	72.6	77.2	84.0	91.3	99.3
Of which: Central gvt project loans	27.2	52.6	61.1	62.0	66.3	68.6	73.2	80.0	87.3	95.3
Program loans	0.0	26.3	24.7	33.4	13.0	13.0	13.0	13.0	14.5	14.5
Amortization due	-548.5	-8.7	-12.5	-11.7	-12.7	-11.8	-13.2	-14.8	-16.8	-28.4
Medium- and long-term private capital	68.4	51.3	68.9	91.5	75.5	77.0	60.8	43.2	37.9	36.1
Deposit money banks	26.5	63.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	45.2	14.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	115.8	86.0	20.0	-34.8	20.0	-44.1	-24.3	-30.0	-34.2	-29.9
Financing	-115.8	-86.0	-20.0	34.8	-20.0	36.6	-3.9	-4.3	-6.1	-6.1
Chge in net foreign assets (- = increase)	-115.8	-86.0	-20.0	34.8	-20.0	36.6	-3.9	-4.3	-6.1	-6.1
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	7.5	28.2	34.3	40.3	36.0
Memorandum items:	(In percent of GDP, unless otherwise indicated)									
Net reexports	4.6	4.7	4.7	4.6	4.7	4.3	4.2	4.0	3.7	3.6
Reexports	10.0	10.2	10.2	9.8	10.2	9.2	9.0	8.5	8.1	7.6
Imports for reexports	-5.3	-5.5	-5.5	-5.3	-5.4	-4.9	-4.8	-4.5	-4.3	-4.1
Current account balance (incl. program grants)	-5.7	-6.7	-6.9	-9.6	-6.5	-8.2	-6.9	-6.3	-6.1	-5.6
Current account balance (excl. program grants)	-6.4	-7.4	-7.5	-10.4	-7.2	-8.8	-7.5	-6.8	-6.5	-6.1
Trade balance	-10.4	-11.6	-11.4	-14.3	-11.2	-12.8	-11.7	-11.1	-10.6	-10.2
Exports	5.6	5.8	6.5	6.2	6.8	6.0	6.3	6.5	6.6	6.8
Imports	-16.0	-17.4	-17.9	-20.5	-18.0	-18.8	-18.0	-17.5	-17.2	-17.0
Services and income (net)	-1.6	-1.1	-1.3	-1.2	-1.1	-1.0	-0.7	-0.8	-0.9	-1.0
Current transfers (net)	6.2	6.0	5.8	5.9	5.8	5.6	5.6	5.6	5.4	5.6
Capital account balance	24.5	2.3	2.4	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Financial account balance	-14.1	7.6	5.3	6.2	4.7	4.6	3.9	3.2	3.0	2.6
Overall balance	4.7	3.2	0.7	-1.2	0.6	-1.3	-0.7	-0.8	-0.8	-0.6
Gross reserves in months of imports 5/	9.2	8.5	...	7.9	...	7.2	6.8	6.4	6.0	5.7
GDP (in billions of CFA francs)	2,481.0	2,663.8	2,880.7	2,991.4	3,124.8	3,309.2	3,534.5	3,859.3	4,214.7	4,602.1

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

1/ Incorporating debt relief under the MDRI (IMF, IDA and AfDF) in stock operations.
2/ Excluding reexports and imports for reexports, net balance of which is allocated between services and public transfers.
3/ Official capital grants from the United States (MCA) of the amount of US $ 307 millions will be disbursed over the period 2006-2011.
4/ The entry in 2003 is for the stock-of-debt operation at the HIPC completion point.
5/ Months of prospective imports of goods and nonfactor services.

Table 5. Benin: Monetary Survey, 2006–09

	2006	2007	2008			2009
	Dec.	Dec.	June	Dec.		Rev. Proj.
	Act.	Est.	Est.	Prog.	Rev. Proj.	
	(In billions of CFA francs)					
Net foreign assets	529.0	678.6	703.5	696.7	643.8	607.2
Central Bank of West African States (BCEAO)	443.8	529.7	512.2	547.9	494.9	458.3
Banks	85.2	148.8	191.3	148.8	148.8	148.8
Net domestic assets	276.1	268.9	432.7	332.1	437.1	603.4
Domestic credit	337.8	310.4	388.6	371.7	478.6	644.9
Net claims on central government	-70.9	-202.6	-162.9	-205.2	-207.7	-207.1
Credit to the nongovernment sector	408.7	512.9	551.4	576.9	686.2	851.9
Other items (net)	-61.8	-41.5	44.1	-39.6	-41.5	-41.5
Broad money (M2)	805.1	947.4	1,136.2	1,028.8	1,080.8	1,210.5
Currency	254.2	238.9	286.5	258.4	268.3	296.8
Bank deposits	541.7	700.9	840.8	760.3	804.9	906.1
Deposits with postal checking accounts	9.2	7.6	9.0	10.1	7.6	7.6
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	20.6	18.6	2.6	2.1	-3.7	-3.4
Net domestic assets	-4.1	-0.9	17.3	6.2	17.8	15.4
Domestic credit	-2.6	-3.4	8.3	6.2	17.8	15.4
Net claims on government	-7.3	-16.4	4.2	-0.5	-0.5	0.1
Credit to nongovernment sector	4.6	13.0	4.1	6.7	18.3	15.3
Broad money	16.5	17.7	19.9	8.3	14.1	12.0
Credit to the nongovernment sector						
(annual change in percent: year-on-year)	8.5	25.5	22.9	12.5	33.8	24.1
Memorandum items						
Velocity of broad money	3.3	3.0	2.9	2.9	2.9	2.9
Broad money as share of GDP	32.4	35.6	38.0	35.7	36.1	36.6
Nominal GDP (in billions of CFA francs)	2,481.0	2,663.8	2,991.4	2,880.7	2,991.4	3,309.2
Nominal GDP growth (annual change in percent)	6.9	7.4	12.3	8.1	12.3	10.6

Sources: BCEAO; and IMF staff estimates and projections.

Table 6. Benin: Schedule of Disbursements under the PRGF Arrangement, 2005–09

Amount	Expected Disbursement Date	Conditions Necessary For Disbursement 1/
SDR 0.88 million	August 12, 2005	Executive Board approval of the three-year Arrangement.
SDR 0.88 million	December 12, 2006	Observance of performance criteria for September 30, 2005, completion of the first review under the arrangement.
SDR 0.88 million	June 29, 2007	Observance of performance criteria for December 31, 2006, completion of the second review under the arrangement.
SDR 0.88 million	January 22, 2008	Observance of performance criteria for June 30, 2007, completion of the third review under the arrangement.
SDR 10.17 million	July 3, 2008	Observance of performance criteria for December 31, 2007, completion of the fourth review under the arrangement.
SDR 0.88 million	December 15, 2008	Observance of performance criteria for June 30, 2008, completion of the fifth review under the arrangement
SDR 0.91 million	June 15, 2009	Observance of performance criteria for December 31, 2008, completion of the six review under the arrangement.

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the PRGF arrangement, including the performance clause on the exchange and trade system.

Table 7. Benin: Indicators of Capacity to Repay the Fund, 2007-17 1/

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
		Projections									
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	0.00	0.00	0.00	0.00	0.18	0.44	0.62	2.74	2.74	2.56	2.30
Charges and interest	0.40	0.30	0.22	0.22	0.22	0.22	0.22	0.21	0.19	0.18	0.17
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Principal	0.00	0.00	0.00	0.00	0.18	0.44	0.62	3.01	3.10	2.92	2.66
Charges and interest	0.40	0.33	0.23	0.23	0.23	0.23	0.23	0.22	0.20	0.19	0.17
Total obligations based on existing and											
In millions of SDRs	0.40	0.33	0.23	0.23	0.41	0.67	0.85	3.23	3.30	3.11	2.83
In billions of CFA francs	0.29	0.23	0.16	0.16	0.29	0.47	0.60	2.26	2.31	2.18	1.98
In percent of government revenue	0.05	0.04	0.03	0.02	0.04	0.06	0.07	0.22	0.21	0.18	0.15
In percent of exports of goods and services	0.09	0.06	0.04	0.04	0.06	0.09	0.11	0.38	0.35	0.30	0.25
In percent of debt service 2/	2.06	0.76	0.60	0.49	0.76	1.09	1.18	5.43	4.88	4.10	3.26
In percent of GDP	0.01	0.01	0.01	0.00	0.01	0.01	0.01	0.05	0.04	0.04	0.03
In percent of quota	0.64	0.53	0.37	0.37	0.66	1.08	1.37	5.22	5.33	5.02	4.57
Outstanding Fund credit 2/											
In millions of SDRs	2.6	14.6	15.5	15.5	15.3	14.9	14.3	11.2	8.2	5.2	2.6
In billions of CFA francs	1.9	10.3	11.0	10.9	10.8	10.4	10.0	7.9	5.7	3.7	1.8
In percent of government revenue	0.4	1.8	1.7	1.6	1.4	1.2	1.1	0.8	0.5	0.3	0.1
In percent of exports of goods and services	0.6	2.9	2.8	2.6	2.3	2.1	1.8	1.3	0.9	0.5	0.2
In percent of debt service 2/	13.6	33.9	40.5	33.3	28.4	24.2	19.7	18.9	12.1	6.9	3.0
In percent of GDP	0.1	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.0
In percent of quota	4.3	23.5	25.0	25.0	24.7	24.0	23.0	18.2	13.2	8.4	4.2
Net use of Fund credit (millions of SDRs)	0.9	11.9	0.9	-	(0.2)	(0.4)	(0.6)	(3.0)	(3.1)	(2.9)	(2.7)
Disbursements	0.9	11.9	0.9	-	-	-	-	-	-	-	-
Repayments and Repurchases	-	-	-	-	0.2	0.4	0.6	3.0	3.1	2.9	2.7
Memorandum items:											
Nominal GDP (in billions of CFA francs)	2,663.8	2,940.4	3,228.5	3,446.4	3,761.3	4,107.3	4,486.1	4,899.8	5,351.6	5,845.2	6,384.2
Exports of goods and services (in billions of CFA frar	323.7	361.1	388.7	425.6	464.0	503.6	552.6	603.5	660.6	727.1	805.2
Government revenue (in billions of CFA francs)	548.0	563.3	644.7	692.7	759.5	834.1	916.4	1,006.9	1,107.1	1,217.3	1,338.6
Debt service (in billions of CFA francs) 2/	14.2	30.5	27.0	32.9	38.0	43.0	50.6	41.7	47.4	53.2	60.8
CFA francs/SDR (period average)	732.0	708.8	708.1	706.4	703.9	701.2	701.2	701.2	701.2	701.2	701.2

Sources: IMF staff estimates and projections.

1/ Includes the PRGF augmentation of 15 percent of quota (SDR 9.285 million) granted on June 16, 2008.
2/ Total debt service includes IMF repurchases and repayments.

Table 8. Benin: Millennium Development Goals

	1990	1995	2001	2002	2003	2004		2015 Target	Likelihood of reaching target
Goal 1. Eradicate extreme poverty and hunger									
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.									Likely
- Population below US$ 1 a day (percent)	57.0	..	..	43.0	...	...		28.0	
- Population below minimum level of dietary energy consumption (percent)	...	29.0	23.0	..	..			10.0	
Goal 2. Achieve universal primary education									
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling									Likely for boys
- Net primary enrollment ratio (percent of relevant age group)	41.0	...	52.0	..	..	...	78.0	100.0	
- Percentage of cohort reaching grade 5	55.0	...	72.0	...	...	69.0	76.0		
- Youth literacy rate (percent age 15-24)	64.0	...	...	...	..	...	74.0		
Goal 3. Promote gender equality and empower women									
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015									Unlikely
- Ratio of girls to boys in primary and secondary education (percent)	49.5	..	65.4	67.0	68.1	71.4	87.0	100.0	
- Ratio of young literate females to males (percent ages 15-24)	43.6	47.3	52.0	...	..	...	83.0		
- Proportion of seats held by women in the national parliament (percent)	3.0	9.0	...	...	...	...	15.0		
Goal 4. Reduce child mortality									
Target 5: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate									Unlikely
- Under-five mortality rate (per 1,000)	185.0	170.0	160.0	..	154.0	152.0		61.7	
- Infant mortality rate (per 1,000 live births)	111.0	104.0	94.0	92.0	91.0	90.0			
- Immunization against measles (percent of children under 12-months)	79.0	65.0	65.0	78.0	83.0	85.0			
Goal 5. Improve maternal health									
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.									Unlikely
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	547.0	..	..	474.0	..	...		137.0	
Goal 6. Combat HIV/AIDS, malaria and other diseases									
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS									Likely
- HIV/AIDS prevalence	0.3	3.2	4.1	1.9	..	2.1		<6.0	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases									Likely
- Prevalence of death associated with malaria (per 10,000)	21.0	11.0		6.8	..	...		12.0	
Goal 7. Ensure environmental sustainability									
Target 9: Halve by 2015 proportion of people without access to safe drinking water									Likely
- Access to improved water source (percent of population)	63.0	..	...	...	..	67.0		80.0	

1/ Sources: Benin's authorities and World Bank estimates and projections.

APPENDIX I. LETTER OF INTENT

Cotonou, November 24, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The attached memorandum on economic and financial policies assesses the progress made during the first half of 2008 and the measures planned for the rest of the year and for 2009, in implementing the macroeconomic policies and structural reforms covered by the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).

2. All of the quantitative performance criteria and benchmarks for end-June 2008 have been met, except the criterion regarding domestic financing of the government and the continuous criterion on nonconcessional borrowing. The government has taken steps to ensure fiscal control and the sequestration of appropriations for nonpriority spending in order to observe the criterion at end-December 2008. Despite the appropriation sequestration measures taken as of the second half of June, the slippage noted was caused by the settlement, early in the year, of the Treasury's outstanding payments, accumulated at end- 2007. Regarding the loan contracted with the BIDC, the grant element of which was slightly below the 35 percent threshold, the government initiated discussions with the BIDC and other partners to obtain more favorable conditions. In light of these remedial measures, the government requests waivers for the nonobservance of these criteria and disbursement of the amount earmarked for the fifth review of the arrangement under the PRGF. The government wishes to continue receiving financial and technical support from the IMF, including through a possible successor arrangement, after the current arrangement expires in June 2009.

3. The government feels certain that the measures and policies described in this memorandum are adequate to achieve the objectives of the program. It is determined to take any further measures that may prove necessary for this purpose. The government will consult with the IMF, either at its own initiative or whenever the Managing Director of the IMF requests such consultation, before adopting any additional measures or changing any of the measures discussed in this memorandum.

4. The government will provide the IMF with any information it may request for the purposes of monitoring the program and for achieving its objectives.

5. The government authorizes the IMF to publish this letter and the attached memorandum, as well as the documents related to the fifth review of the arrangement supported by the PRGF.

Yours sincerely,

/s/

Soulé Mana Lawani

ATTACHMENT I

BENIN

Memorandum on Economic and Financial Policies for 2008–09

I. Introduction

1. **The economic recovery is gaining ground**. Despite the persistence of the food and energy crisis and the delay in implementing the structural reforms, the growth rate of real GDP is expected to reach 5.1 percent in 2008, compared with 4.6 percent in 2007. The vitality of business in the port, the continued buoyancy of the agricultural and services sectors, and sustained demand from the Nigerian market have been the engines of growth. However, that growth still falls short of the government's objectives and of the minimum required for achievement of the Millennium Development Goals.

2. **The rise in food and oil prices has intensified the inflationary pressures and helped erode competitiveness in 2008**. At 1.3 percent in 2007, the average rate of inflation was one of the lowest in the West African Economic and Monetary Union (WAEMU) area; it has, however, accelerated to 12.0 percent, year on year, and 6.1 percent, on average, at end-September 2008, thus largely exceeding the 3 percent threshold prescribed in the WAEMU stability and growth pact. This upsurge in inflation was generated mainly by the prices of foodstuffs (14.3 percent year-on-year) and transport services (3.7 percent). The inflation gap between Benin and its trading partners worsened.

3. **The external current account has declined under the combined effects of the deterioration in the terms of trade and the weakness of exports**. This external current account weakening has been significant. The deficit is estimated at 10.4 percent of GDP for the first half of 2008, compared with 7.4 percent in 2007. This drop can be attributed to the marked increase in imports, especially of food and oil products. However, a rebound of foreign private investment and inflows of additional public capital have increased the financial account surplus and helped limit the contraction of the international reserves. At end-September 2008, the latter represented slightly below 8 months' coverage of imports of goods and services for the following year. The increase in access to IMF resources under the Poverty Reduction and Growth Facility (PRGF), representing 15 percent of the quota approved on June 16, 2008, contributed to this performance.

4. **Fiscal consolidation was pursued in 2008, even if the slippage observed in expenditure during the first half of the year somewhat limited its scope**. The combined effects of continued improvement in the performances of the tax and customs administrations and the rise in prices helped generate a gain in receipts, representing 0.8 percent of GDP, despite the losses resulting from the import duty reductions granted by the government in the first half of 2008 to contain the prices of consumer staples. However, in light of the subsidies granted by the government to the power distribution companies and the accelerated implementation of the public investment program, the expenditure targets for the first half of 2008 were exceeded by a sum equivalent to 2.2 percent of GDP. Rigorous expenditure control as of June 2008 led to the observance of the basic fiscal balance surplus target for

end-June 2008; however, the settlement of the Treasury's accounts payable led to a severe deterioration of the overall cash-basis deficit and nonobservance of the criterion on net domestic financing.

5. **Customs performances exceeded the programmed targets**. At end-June 2008 customs revenue totaled CFAF131.8 billion and represented 4.4 percent of GDP during the second half of 2008, up 11.4 percent from 2007. Despite the reduction in duty on consumer staples during the first half of the year, this sound performance can be attributed to the strengthening of tax administration and the magnitude of customs escort products in fiscal revenue. The resilience of customs revenue also results from the mechanical effect of the substantial increase in the value of imports.

6. **Domestic tax receipts also increased at the rate of nominal GDP**. Collection by General Directorate of Taxes and Government Property (DGID) units equaled last year's, totaling CFAF115.8 billion, or 3.9 percent of GDP, in the second half of 2008, a 15.4 percent increase from the previous year. This level of receipts can be explained by the intensification of efforts to improve the tax administration. The streamlining of the portfolios of the Large Taxpayer Unit (DGE) and the Medium-sized Enterprise Tax Centers (CIMEs) is continuing, with the raising of the thresholds of competence of these units; the same is true of their modernization, with the recruitment of new professional staff. The DGE has now turned its focus on the effective monitoring of large enterprises. Accordingly, the management of the business profit tax (BIC) levied on large enterprises, which have now been freed of the system under which part-payments of the tax on industrial and commercial profits (AIB) were levied in customs, has been standardized, and the collection problems related to tax credit management have been gradually overcome. The adequacy of VAT collection results from these efforts, especially the strengthening of control measures for monitoring the tax base and collection activities.

7. **The large increase in public expenditure is a response to the demands imposed by the rise in commodity prices and the need for accelerated infrastructure development**. In the second half of 2008, total expenditure and net lending reached CFAF 294.5 billion, or 9.8 percent of GDP, compared with the projected 9.3 percent of GDP. Current expenditure was marked by major overruns in the use of transfer appropriations. This resulted primarily from government support to the energy sector, which was in a severe crisis, and to the education sector. The wage bill target was overrun because of the early payment of diplomats' wages, contingency payments of compensation to civil servants of certain categories, and more recruitment than planned of government employees. Self-financed capital expenditure was also higher than programmed because of the accelerated implementation of infrastructure projects.

8. **The overall budget deficit (on a cash basis, excluding grants) widened significantly, reaching, at end-June 2008, CFAF 99.9 billion, or 3.3 percent of GDP.** In the first half of the year, this deficit was partly financed by disbursements of budgetary assistance. This comprised CFAF 17.9 billion from the 2007 World Bank PRSC IV program, CFAF 2.9 billion from France, and CFAF 1.7 billion from Denmark. The remainder was covered by a drawdown from the government's deposits with the banking system. In June 2008, the issuance of CFAF 40.1 billion in Treasury bills on the regional market facilitated reconstitution

of the government's deposits. The government also issued commercial paper to settle the outstanding balance of the wage debt to its employees.

9. **The monetary survey was characterized by a sharp increase in the money supply, resulting essentially from the rapid expansion of credit to the private sector.** The money supply grew by 19.9 percent, during the first half of 2008, following an increase of 7.5 percent in credit to the private sector and a rise in drawdowns from government deposits. Meanwhile, the quality of bank loans deteriorated slightly, on average, and the financial condition of microfinance institutions weakened. The Central Bank of West African States (BCEAO) maintained the reserve ratio at 15 percent, which was the highest level in the WAEMU area. The BCEAO has also increased on August 14, 2008 its main intervention rate, the repo rate, by 0.5 percent to bring it from 4.25 percent to 4.75 percent. The discount rate has been raised to 6.75 percent, compared with the previous rate of 4.75 percent.

10. **All of the quantitative performance criteria and benchmarks for end-June 2008 were met, except for that on domestic financing.** The government deems this slippage temporary and has therefore taken all the necessary steps to ensure observance of this criterion at end-December 2008. The wage bill exceeded the quantitative benchmark by CFAF 1.5 billion. The structural benchmarks on auditing the IT management of public expenditure and the strategy for reforming the pension system will be observed by the new deadlines agreed upon in the context of the program at end-December 2008.

11. **The government changed its policy as of July 2008 to apply "market-based pricing" to consumer staples**. The measures taken at end-2007 to limit the impact of the food and energy crisis, especially the reduction of customs duty on essential foodstuffs, were discontinued, and the prices of most consumer staples were liberalized. In particular, fuel prices reflect those obtained on the international market, with only the cross-subsidy for kerosene remaining in the price structure. The prices of maize, 25 percent broken rice, and cement remain subject to approval to protect the most vulnerable segments of society in the absence of a social safety net system.

12. **The government has accelerated implementation of structural reforms.** In particular, it has formed a new company to take over SONAPRA's manufacturing operations. The government has sold 33.5 percent of the capital of SONAPRA to a strategic private operator. It is retaining 33.5 percent of the equity and is placing the remaining shares for distribution to the public on the regional financial market (17.8 percent), to cotton producers, and to local governments. The government is required to relinquish its nominee role on the remaining shares twelve months after the new company is formed. Should it fail to do so, the private company can exercise its preemptive right to the shares for distribution to the public (17.8 percent). Although the government holds a blocking minority to safeguard proper functioning of the cotton sector, comprehensive arrangements have been made to give operational independence to the strategic partner. The government is currently drafting the final version of the overall cotton sector strategy, with the participation of all players in the sector and the full involvement of the development partners. It has also relinquished its holdings (41.6 percent), as well as those of the BOAD (10 percent) and SONACOP (2.8 percent), in Continental Bank-Benin. The government has also recruited a consortium of

consultants to help it privatize Bénin Télécom SA and the SCO cement factory in the upcoming months.

III. Economic and Financial Policies for the Rest of 2008 and in 2009

A. Macroeconomic Framework

13. **The government is determined to strengthen the macroeconomic framework and accelerate structural reforms to place the economy on a path of strong and sustainable growth**. Despite the shock generated by the food and energy crisis, it is expected that growth will continue accelerating and inflation will be reduced to below the 3 percent threshold prescribed in the WAEMU stability and growth pact, over the medium term. The economic outlook therefore remains positive, with the real GDP growth rate projected to be 5.1 percent in 2008 and 5.7 percent in 2009. Inflation is expected to decline from 8.8 percent in 2008 to 6.5 percent in 2009, before once again falling within the limits of the WAEMU convergence criterion in 2010. This performance is a result of the reduction of inflationary pressures related to the international food and energy prices, and of government policy hinged upon macroeconomic stability. The external current account deficit is projected to reach 10.4 percent in 2008 and 8.8 percent in 2009, as a result of an improvement in terms of trade.

14. **The government remains attached to the policy of "market-based pricing."** At the same time, it will take steps to improve the supply of products on the local market. The government has also requested technical and financial support from the development partners to formulate and implement programs to promote expansion of the production and domestic supply of consumer goods, in particular foodstuffs, and social safety nets in favor of the poor.

B. Fiscal Policy

15. **The government is aware of the need to contain public expenditure for the rest of 2008, with a view to preserving macroeconomic stability**. It has taken measures to sequester appropriations for nonpriority expenditure and reduced the rate of operating expenditure commitments. These measures are expected to lead to a slightly higher basic primary balance than planned.

16. **In 2009, fiscal policy is aimed at safeguarding the past gains of macroeconomic stability while supporting the development of economic and social infrastructure**. Total public revenue and expenditure are respectively expected to reach 19.8 percent of GDP and 24.0 percent of GDP. It is anticipated that the basic fiscal balance will remain in surplus at CFAF 18.9 billion, or 0.6 percent of GDP, thus meeting the WAEMU objective. The overall fiscal balance deficit (on a payment order basis and excluding grants) should be contained at a level equivalent to CFAF 136.6 billion, or 4.1 percent of GDP. Accordingly, infrastructure and poverty reduction expenditure will continue increasing without jeopardizing fiscal consolidation. The deficit will be financed by the budgetary assistance expected from the European Union (EU), the World Bank, the African Development Bank, and France, the Netherlands, Denmark, and other bilateral partners. Domestically-financed public capital

expenditure is expected to continue rising, from 3.8 percent of GDP in 2008 to 4.5 percent in 2009, or about 2 percentage points of GDP over the average for the past two years.

17. **Total revenue is expected to total CFAF 656.7 billion, or 19.8 percent of GDP**. It is anticipated that revenue will improve in line with the increase in the value of imports. It is also expected to benefit from the measures taken to broaden the domestic and foreign trade tax bases, namely: (i) gradually expanding use of the single tax identification number (IFU), (ii) strengthening the tax and customs control structures, (iii) continuing to modernize the CIMEs, (iv) building the DGE's capacity to monitor the VAT returns of the enterprises it supervises, and (v) introducing the use of the ASYCUDA++ computer tool by 12 more customs positions.

18. **For the revenue-collecting departments to be strengthened, their modernization must be pursued, especially through in-depth development of their respective IT systems.** To successfully introduce the IFU, the government will have an audit performed of the DGID's IT system and establish an IT blueprint in the first quarter of 2009. At the DGDDI, the installation of ASYCUDA++ will be expanded to include 12 more customs positions. In the two administrations, computerization will include the communications system.

19. **Total expenditure and net lending could reach CFAF 793.2 billion in 2009, corresponding to a 13.6 percent rise.** This upward surge, coming after the 19.5 percent increase expected in 2008, meets the demands to strengthen the economic and social infrastructure. It is anticipated that the wage bill will total CFAF 190.2 billion, or 5.7 percent of GDP, in response to the human resource needs of the key sectors of education, health, agriculture, and the revenue-collecting agencies, as well as to build capacity for programming, preparation, execution, and monitoring of the budget. Overall, capital expenditure is expected to continue increasing, to reach CFAF 291.5.billion, or about 8.8 percent of GDP.

C. Money and Credit

20. **The monetary policy conducted by the BCEAO will remain consistent with the objectives of price stability and of keeping the WAEMU area's international reserves adequate**. Broad money is expected to increase by 12.0 percent in 2009, reflecting growth of 15.4 percent in the net domestic assets, compared with the money supply at the beginning of the period, which will in turn be driven by 15.3 percent growth in credit to the private sector . Foreign assets could dip slightly.

21. **The main instrument of intervention of the BCEAO remains its interest rate policy (the repo rate and the discount rate)**. The regulations on the reserve requirements will continue to be used to strengthen the effectiveness of the interest rate policy. The BCEAO will pursue its careful monitoring of developments in the monetary survey, in particular the expansion of credit to the economy, the international reserves, and inflation.

22. **The various bank inspection missions performed by the Banking Commission have highlighted the need for a number of remedial measures**. Improvements are expected, in particular, in the areas of corporate governance, information systems, risk management, loan declassification, and the tracking of latent loan losses. The authorities

intend to strengthen banking supervision to improve compliance with the prudential ratios. They will also make efforts to strengthen enforcement of the regulatory framework in the microfinance sector.

D. Balance of Payments and External Debt

23. **The external current account deficit, excluding grants, is expected to narrow to 8.8 percent of GDP in 2009, compared with 10.4 percent of GDP in 2008**. This development results primarily from the drop in oil product and food prices. Imports of intermediate and capital goods are expected to rise because of increasing demand for public investment. A reduction in external financial flows could lead to a contraction in the financial account surplus and a deficit in the overall balance that would be financed by a drawing on the BCEAO reserves, deemed sufficient to cover 7.2 months' imports for the next year.

24. **The government reaffirms its policy of prudent indebtedness to safeguard debt sustainability**. It will continue seeking to finance its needs through grants or highly concessional loans. It will ensure the proper use of loans contracted, including borrowings on the WAEMU financial market, in the context of financing actions in support of growth and improving access by the people to core social services. Resources raised on the regional financial market are nonconcessional, and their excessive increase could amplify the risk of an unsustainable debt position. Accordingly, domestic indebtedness will be limited on the basis of the annual debt sustainability analysis.

E. Structural Policies

25. **Improving fiscal management remains a priority**. The audit of the IT systems used in public expenditure management (SIGFIP, ASTER, and WMONEY), ordered by the government and carried out with EU support, is ongoing, and its recommendations will serve to prepare a medium-term strategy for strengthening fiscal management. A key component of this strategy relates to more reliable expenditure monitoring. In the same context, the government has also made progress in preparing its strategy to improve the financial position of the National Retirement Fund of Benin. Appropriate arrangements have been made to complete the strategy by year-end.

26. **With the involvement of all players in the cotton sector and development partners, the government has started preparing an overall cotton sector reform strategy**. The government has decided to turn the focus of SONAPRA back to its agricultural promotion role. The role of the state will thus now be limited to providing training for farmers, especially through outreach activities, research, and experimentation to maintain and develop the quality of seeds and to prepare an adequate regulatory framework. The government will ensure compliance with the regulations by all concerned. The government intends to put in place all the necessary incentives to encourage a greater national value added in cotton sector. The reform will be formulated with this in mind.

27. **The reform of the energy sector is continuing with World Bank support**. It involves revamping the national power company (SBEE) and improving the quality of the service provided, which is key to ensuring the overall competitiveness of the economy.

28. **The production and transport of electric power are the subject of a national strategy for developing the sector.** This strategy is being formulated in cooperation with the commission established at the WAEMU level to find lasting solutions to the energy crisis.

29. **Improving telephone services in Benin is a priority for the government**. The telecommunications network in Benin, especially the GSM mobile telephony, has become much denser. The government has hired an advisory firm to help it privatize Bénin Télécom SA. Preparations are under way to open up its capital, and the government will soon make the decision to launch a call for expressions of interest in this regard.

30. **The government is pursuing its program to develop the port infrastructure so as to increase the competitiveness of the Cotonou autonomous port**. In the context of the reforms of the Cotonou port, the government, with the help of MCA-Bénin, has recruited a port expert, who is participating in the day-to-day management of the port to help modernize its working methods, in particular the one-stop shop in the Cotonou port including the start-up of the single invoicing slip (BFU). To increase the fluidity of foreign trade and improve the collection of entry fees and other charges, the government has also launched the construction of a dry port in Parakou and improved the offloading areas, thus helping to reduce clogging at the Cotonou port.

F. Poverty Reduction and Growth Strategy Paper (PRGSP)

31. **The government has prepared the 2007 annual report on implementation of the PRGS (2007–09)**. This annual report has been reviewed on September 29, 2008 with all development and technical partners. The government is committed to taking into account the comments provided during this review for a better implementation of such strategy.

G. Monitoring of Program Implementation

32. **Monitoring of the program will be based on the quarterly quantitative and structural performance criteria and benchmarks** (Tables 1 and 2). The authorities will provide the IMF with any information necessary for monitoring the program, in accordance with the attached Technical Memorandum of Understanding. During the program period, the authorities will not establish or strengthen any restrictions on payments or transfers for international current transactions without consulting the IMF; nor will they introduce or modify any multiple currency practice, or enter into any bilateral payment arrangement that is inconsistent with Article VIII of the IMF Articles of Agreement, or introduce any restrictions on imports for reasons related to the balance of payments.

33. **The sixth review of the PRGF arrangement will be conducted by end-June 2009.**

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period December2007–June 2009
(In billions of CFA francs)

	End-March 2008 indicative targets		End-June 2008 performance criteria			End-September 2008 indicative targets	End-December 2008 performance criteria	End-March 2009 indicative targets	End-June 2009 indicative targets
	EBS 07/151	Est.	Prog.	Adj. Prog.	Est.	Prog.	Prog.	Prog.	Prog.
A. Quantitative Performance Criteria and Indicative Targets 1/									
Net domestic financing of the government 2/ 3/	-32.1	21.5	14.9	15.6	44.0	14.4	-12.3	-3.0	-12.8
Basic primary balance (excluding grants)	41.5	36.6	36.5	35.8	38.0	28.7	14.7	42.8	41.6
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	1.1	4.7	23.2	22.5	22.5	23.2	56.2	2.5	11.0
B. Continuous quantitative performance criteria									
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by government with maturities of 0-1 year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcesional external contracted or guaranteed with maturities of one year or more	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative Targets (Cumulative from December 31, 2005)									
Total revenue	132.1	142.7	261.0	261.0	285.7	389.7	530.1	162.4	324.6
Wage bill	36.0	36.6	77.4	77.4	79.1	119.8	171.7	40.6	87.6

1/ The targets and performance criteria are cumulative as from end-December of previous year.
2/ The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast up to a limit of CFA francs 10 and 18 billions at end-September and end-December 2006, respectively.
3/ If external budgetary assistance exceeds the amount projected in excess of more than CFAF 3 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 3 billion, unless it is used to absorb domestic arrears.
4/ This performance criterion is monitored on a continuous basis.

Table 2. Benin: Structural Benchmarks for 2007–09

Measures	Date	Status
Structural benchmarks		
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	Delayed; reset to end-December 2008
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	Delayed; reset to end-December 2008
Completion of a strategy to improve public finance management.	End-March 2008	Delayed; reset to end-December 2008
Recruitment of a port expert at the "Port Autonome de Cotonou."	End-June 2008	Completed
Completion of the new cotton sector reform strategy.	End-December 2008	In progress
Extension of ASYCUDA ++ to twelve (12) additional posts (regional customs units/offices).	End-March 2009	
Adoption of a strategic information system at the DGID[1], after an audit in order to operationalize the single taxpayer identification function	End-March 2009	

[1]Direction générale des impôts et des domaines

ATTACHMENT II

BENIN—TECHNICAL MEMORANDUM OF UNDERSTANDING

November 24, 2008

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

I. DEFINITIONS

2. Unless otherwise indicated, the government is understood to mean the central administration of the Republic of Benin and does not include local governments, the central bank, or any other public entity with autonomous legal personality not included in the government flow of funds table (TOFE).

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

(a) As set out in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), as amended by Executive Board Decision No. [1]2274-(00/85) (24/08/2000)), debt is understood to mean a direct, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

(b) **A loan is considered concessional** if, on the date on which the contract was signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element of more than 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For maturities longer than 15 years, the grant element will be calculated based on the 10-year average of CIRRs reported by the OECD. For shorter maturities, the rate to be used will be the six-month average of CIRRs.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definition

4. Net domestic financing of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, net of the cost of the structural reforms to which said proceeds are allocated, including Treasury bills issued in CFA francs on the WAEMU regional financial market.

5. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and the commercial banks. The scope of net credit to the government is that used by the Central Bank of West African States (BCEAO) and is in keeping with general Fund practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public enterprises (EPICs) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to these same financial institutions.

6. Net bank credit to the government and the net amount of obligations and Treasury bills issued in CFA francs on the WAEMU regional financial market are calculated by the BCEAO, while nonbank financing is calculated by the Benin Treasury, the figures of which are deemed valid within the framework of the program.

7. The ceiling on net domestic financing of the government will be adjusted if disbursements of external budgetary assistance (excluding IMF financing and assistance under the Highly Indebted Poor Countries (HIPC) Initiative), net of debt service obligations (excluding repayment obligations to the IMF) and arrears payments, exceed or fall short of program forecasts. If disbursements exceed the programmed amounts, the ceiling will be lowered by the amount of budgetary assistance received in excess of the programmed amount, except if the excess is allocated to the settlement of domestic arrears. Conversely, if at the end of a quarter disbursements fall short of the amount programmed for that quarter, the ceiling will be raised by

the amount of the shortfall, up to a maximum (on a non-cumulative basis), of CFAF 10 billion at end-September 2008, and CFAF 18 billion at end-December 2008. For 2009, the ceiling will be CFAF 2.5 billion at end-March 2009 and CFAF 11 billion at end-June 2009. The amount of budgetary assistance provided is calculated as of end-December 2008. Budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, IMF resources, and debt relief under the HIPC and Multilateral Debt Relief Initiatives).

Performance benchmarks and criteria

8. The ceiling on net domestic financing of the government in the second half of 2008 is set as follows: CFAF 44.0 billion for end-June, CFAF 14.4 billion at end-September, and CFAF 12.3 billion at end-December. For 2009, the ceiling is set as follows: CFAF -3.0 billion at end-March and CFAF -12.8 billion at end-June. The ceiling is a benchmark for end-September 2008, end-March 2009, and end-June 2009, and a performance criterion for end-December 2008.

Reporting deadline

9. Detailed data on domestic financing of the government, including a detailed survey of the accounting positions of other public enterprises with the banking system, will be forwarded on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

B. Narrow Primary Fiscal Balance

Definition

10. The narrow primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and fiscal expenditure, minus the payments of interest on debt and capital expenditure financed by foreign grants and net lending.

Performance criterion

11. The ceiling on the basic fiscal balance (excluding grants), for the second half of 2008, is a surplus amount that may not be lower than CFAF 28.7 billion at end-September 2008, and CFAF 14.7 billion at end-December 2008. For 2009, this ceiling is: (i) 42.8 billion at end-March and (ii) CFAF 41.6 billion at end-June. It is a benchmark for end-September 2008, end-March 2009, and end-June 2009, and a performance criterion for end-December 2008.

Reporting deadline

12. Provisional data on the narrow primary fiscal balance, including data produced by the automated fiscal management system (SIGFIP), will be forwarded on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

C. Accumulation of New Arrears in Domestic Payments of Public Debt

Definition

13. Arrears in domestic payments on public debt are defined as the stock of government debt to residents that is repayable at the end of a 90-day period, unless otherwise indicated, but not paid, and any government financial obligations, confirmed as such by the government (including all government debt). The National Amortization Fund (CAA, a public debt management agency) and the Treasury record and update the accumulation of arrears in domestic payments on public debt, as well as their settlement.

Performance criteria

14. The government undertakes not to accumulate any new arrears in domestic payments on public debt. As regards obligations other than public debt, the government undertakes not to accumulate further arrears for periods of more than six months. The non-accumulation of arrears in domestic payments will be continuously monitored throughout the program.

Reporting deadline

15. Data on the balance, accumulation, and repayment of arrears in domestic payments of public debt will be forwarded on a monthly basis, within eight weeks of the end of the month.

D. Non-accumulation of Arrears in Public External Payments

Definition

16. Arrears in public external payments are defined as the sum of payments due, and not paid, to nonresidents on government debt and on external debt guaranteed by the government. The definition of debt provided in paragraph 3 applies here.

Performance criterion

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

E. Ceiling on Nonconcessional External Debt Maturing in a Year or More or Newly Contracted or Guaranteed by the Government

Definition

18. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision 6230-(79/140), as amended by Executive Board Decision 12274-(00/85) (24/08/2000)), but also to liabilities contracted or guaranteed (including lease-purchase contracts) for which no funds have

been received. External debt excludes obligations and Treasury bills issued in CFA francs on the WAEMU regional market.

19. The concept of government used for this performance criterion includes government as defined in paragraph 2, administrative public enterprises (EPAs), scientific and technical public enterprises, professional public enterprises, and local governments.

Performance criterion

20. No nonconcessional external borrowing will be contracted or guaranteed during the 2008-09 program.

Reporting deadline

21. Information on any borrowing (terms and creditors) contracted or guaranteed by the government will be reported each month, within four weeks of the end of the month.

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

Definition

22. The definitions in paragraphs 18 and 19 also apply to this performance criterion.

23. Short-term external debt is debt with a contractual term of less than one year. Import-related loans and debt relief operations are not covered by this performance criterion.

Performance criterion

24. In the context of the program, the government undertakes not to contract or guarantee short-term nonconcessional external debt.

25. At December 31, 2007, Benin had no short-term external debt.

III. Quantitative Benchmarks

A. Floor for Government Revenue

Definition

26. Total government revenue is defined as that shown in the TOFE.

Benchmarks

27. The benchmarks for total government revenue for the second half of 2008 are set at CFAF 389.7 billion for end-September, and CFAF 530.1 billion for end-December (cumulative since end-December 2007). For 2009, the benchmarks for total government revenue are set at

CFAF 162.4 billion for end-March and CFAF 324.6 billion for end-June (cumulative since end-December 2008).

Reporting deadline

28. The government will forward a monthly report on tax revenue to Fund staff, in the context of the TOFE, by the end of the month following that to which the report applies.

B. Ceiling on the Wage Bill

Definition

29. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted to civil servants, the military, and other security forces, as well as expenditure on special contracts and other permanent or temporary employment with the government. The wage bill therefore excludes wages paid under externally funded projects and transfers to the communal level for the payment of teachers' wages.

Benchmarks

30. The quantitative benchmarks are defined as the sums accumulated after end-December 2007 for the criteria set in 2008, and after end-December 2008 for the criteria set in 2009. For the second half of 2008, the quarterly ceilings on the civil service wage bill are set at CFAF 119.8 billion at end-September, and CFAF 171.1 billion at end-December. For 2009, these quarterly ceilings are set at CFAF 40.6 billion at end-March and CFAF 87.6 billion at end-June (MEFP, Table 1).

Reporting deadline

31. The government will forward monthly wage bill data to Fund staff, in the context of the TOFE.

IV. Structural Performance Criteria

32. The following measures will serve as structural benchmarks (MEFP, Table 2):

- Audit of the automated fiscal management systems (SIGFIP, ASTER, and WMONEY);
- Completion of a strategy to reform the civil service pension fund (FNRB);
- Completion of a strategy to improve fiscal management;
- Completion of the new cotton sector reform strategy;
- Extension of ASYCUDA++ to twelve (12) additional posts (regional customs units/offices); and

- Adoption of a strategic information system at the DGID, after an audit, in order to operationalize the single tax identification function.

V. Additional Information for Program Monitoring

A. Government Finance

33. The government will provide the Fund with:

- Detailed monthly revenue and expenditure estimates, including for social expenditure, the settlement of arrears, and financed expenditure under the HIPC Initiative;

- Comprehensive monthly data on domestic financing of the budget (bank and nonbank), including the obligations held by the nonbank private sector. These data will be forwarded every month, within four weeks of the end of the month; and

- Quarterly data on implementation of the public investment program, including details of financing sources. These data will be forwarded on a quarterly basis, within four weeks of the end of the quarter.

B. Monetary Sector

34. The government will provide the Fund monthly, within eight weeks of the end of the month, with:

- A consolidated balance sheet of the monetary institutions and, where necessary, the balance sheets of certain individual banks;

- A monetary survey;

- Deposit and lending rates; and

- The customary banking supervision indicators for bank and nonbank financial institutions and, where necessary, the same indicators for certain individual institutions.

C. External Sector

35. The government will provide the Fund, within 12 weeks of the end of each quarter, with:

- Import and export prices and volumes; and

- Other balance of payments data, including services, private transfers, official transfers, and capital transactions.

D. Real Sector

36. The government will provide Fund staff with:

- Disaggregated monthly consumer price indices, on a monthly basis, within two weeks of the end of the month; and

- Any revision of the national accounts, within eight weeks of the revision date.

E. Structural Reforms and other Data

37. The government will provide the Fund with:

- All decisions, orders, laws, decrees, ordinances, and circulars relating to the economy of Benin, within 10 days of their entry into effect; and

All studies or research papers relating to the economy of Benin, within two weeks of their publication.

PROPOSED DECISIONS

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

1. Benin has consulted with the Fund in accordance with paragraph 2.I.C(c) of the arrangement for Benin under the Poverty Reduction and Growth Facility (PRGF) (EBS/05/114, 07/25/05) (the "Arrangement") in order to review program implementation.

2. The letter dated November 24, 2008 from the Minister of Economy and Finance (the "November 2008 Letter"), along with its Memorandum of Economic and Financial Policies (the "November 2008 MEFP") and the Technical Memorandum of Understanding (the "November 2008 TMU"), shall be attached to the Arrangement, and the letters dated July 21, 2005, October 29, 2006, May 22, 2007, December 19, 2007, May 30, 2008, together with their attachments, shall be read as further supplemented and modified by the November 2008 Letter and its attachments.

3. The Fund decides that the fifth review contemplated in paragraph 2.I.C(c) of the Arrangement is completed, and that the Benin may request the disbursement of the sixth loan referred to in paragraph 1(cc)(iv) of the Arrangement, notwithstanding the non-observance of end-June 2008 performance criterion on net domestic financing of the government specified in Paragraph 2.I.C(b)(i) of the Arrangement and the performance criterion on contracting new non-concessional external debt specified in Paragraph 2.II(g) of the Arrangement, on the condition that the information provided by Benin on the performance under these criteria is accurate.