

**FOR
AGENDA**

EBD/11/75

August 29, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Benin—Poverty Reduction Strategy Paper—Joint Staff Advisory Note**

Attached for consideration by the Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on the poverty reduction strategy paper for Benin. This paper and the poverty reduction strategy paper (EBD/11/74), together with the paper on the second review under the three-year arrangement under the Extended Credit Facility for Benin and its request for a waiver of the nonobservances of a continuous performance criterion (EBS/11/134, 8/24/11), are tentatively scheduled for discussion on **Wednesday, September 7, 2011**. Unless an objection from the authorities of Benin is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. de Zamaroczy (ext. 36934), Mr. Pani (ext. 38536), and Mr. Lonkeng Ngouana (ext. 38404) in AFR; and Ms. Teodoru, SEC (ext. 39322).

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 forthwith; and to the African Development Bank, the Economic Community of West African States, the European Commission, the Food and Agriculture Organization, the Islamic Development Bank, the United Nations Development Programme, and the West African Economic and Monetary Union, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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BENIN

Poverty Reduction Strategy Paper

Joint Staff Advisory note

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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August 26, 2011

I. OVERVIEW

1. **Benin's third Poverty Reduction Strategy Paper (PRSP III), also called "*La Stratégie de Croissance pour la Réduction de la Pauvreté*," covers 2011 to 2015.** It considers progress achieved under the previous PRSPs and largely confirms and furthers the objectives elaborated in the PRSP II. As such, the PRSP III builds on successes, and addresses the failures and constraints encountered in implementing the previous PRSPs. The overriding objective of the PRSP III is to improve the quality of life in Benin and to place Benin on the road to emerging-market status. The document notes that achievement of the Millennium Development Goals (MDGs) is seen as attainable in water, sanitation, primary education, and primary health care, and significant progress is planned toward the other MDGs. The development objectives are the same as in the previous PRSP: (i) accelerated economic growth; (ii) infrastructure development; (iii) strengthened human capital; (iv) good governance; and (v) balanced and sustainable regional development.

2. **This PRSP comes at a challenging time, following the food and fuel price crises of 2007/08, the global economic and financial crisis of 2008/09, and the recent rise in international oil and food prices.** Economic performance was relatively strong in Benin during 2005–08, with an average real GDP growth of 4.1 percent, above the regional average. External shocks, combined with additional internal shocks, including the collapse of a number of illegal microfinance institutions and the late 2010 floods, have however taken a toll on Benin's open economy and growth slowed to 2.7 percent in 2009 and 2.6 percent in 2010. This has possibly reversed earlier gains in poverty reduction. While the rapid succession and scale of these largely exogenous shocks is not typical, they highlight Benin's economic vulnerability and the limited

capacity of its institutions and policies to help the poor cope with such shocks. This vulnerability is exacerbated by Benin's heavy reliance on cotton, re-exports, and transit trade, with the latter being particularly sensitive to economic conditions and policy and regulatory changes in neighboring Nigeria. Despite a long period of positive economic growth, the economy has shown little structural change, limited diversification, unambitious export drive beyond cotton and re-export/transit trade, and minimal job creation in the formal private sector. The PRSP III addresses these challenges and builds on measures initiated in the PRSP II.

3. **The PRSP III is the result of a broad participative process that engaged all levels of Government, the private sector, civil society, and donor partners.** The PRSP III emanates from long-term national visions in the National Study of Long-Term Perspectives (ENPLT) and Benin Alafia 2025. It also builds on the Strategic Development Orientations (OSD) outlined by the Government in 2006. The PRSP III operationalizes the OSD through the preparation of the associated Priority Action Plan (PAP) and the Medium-Term Economic Framework (MTEF). These strategic documents were themselves the product of extensive consultations undertaken at the national and departmental levels. Thematic groups were established, comprising government officials and representatives of civil society, the private sector, and donors. Workshops were held to evaluate, consider, and incorporate cross-cutting themes such as gender, HIV/AIDS, demographics, environmental considerations, and human rights. The output of these groups is the foundation of the PRSP III. As such, a participative process was sought and clear efforts were made to engage civil society and other societal groups outside the Government, though some felt that the level of engagement could have been broader.

II. POVERTY TRENDS AND DIAGNOSIS

4. **Benin remains a low-income country with a per capita income of US\$680 in 2010.** With a Human Development Index of 0.435, Benin is ranked 134th out of 169 countries in the latest Human Development Report (2010). Despite economic growth, progress in poverty reduction has been limited. According to the latest statistics, the incidence of poverty at the national level is estimated at 35 percent in 2009 versus 37 percent in 2006. This aggregate figure masks important urban/rural, regional, and gender-based differences. Poverty is 29.8 percent in urban areas versus 38.4 percent in rural areas; 61.0 percent in Aplahoué commune versus 18.1 percent in Abomey-Calavi commune; 36.2 percent among male-headed households versus 30.4 percent among female-headed households.

5. **The available broad poverty and social data indicate that results under the PRSPs I and II were modest.** Although macroeconomic performance was overall satisfactory, economic growth remained too low for meaningful progress toward the MDGs. Greater progress toward achieving the MDGs, an important objective under the PRSP III, will require higher and more stable growth and a significant improvement in the efficiency and effectiveness of public service financing and delivery.

III. OUTCOMES AND STRATEGIC OBJECTIVES

A. Higher Economic Growth

6. **The focus on accelerating economic growth is welcome because it is a precondition for meaningful poverty reduction and attainment of the MDGs.** The provision of a stable macroeconomic environment, fostering a more dynamic and competitive private sector, encouraging economic diversification, and furthering regional integration and global engagement is in line with needs and is critical to achieving growth targets. These targets are ambitious and exceed by a notable margin both historical levels and growth projections in the economic program supported by the IMF. They can be achieved only with sustained commitment and effective implementation of reforms, and will require efforts above past performance.

7. **Benin has significant comparative advantages in agriculture and, given its key geographic position, in commerce and trade.** As such, capitalizing on its comparative advantage in agriculture through diversification and a reinvigoration of cotton will be important, as will positioning Benin as a cost-effective, transparent, and well-governed economy with a strong business and investment climate that can increasingly serve regional markets, particularly Nigeria.

8. **Focusing on these comparative advantages will be important in achieving the ambitious medium-term growth objectives noted in the PRSP III.** In regard to agriculture, focus on approving the Strategic Program for Reform of the Agriculture Sector (PSRSA) and its effective implementation will be key, particularly in fostering agricultural diversification and reinvigorating the cotton sector. In playing to its comparative advantage in trade and commerce, higher economic growth will require sustained commitment to a strengthened private-sector enabling environment and an improved investment climate. Benin has demonstrated limited progress to date in its business environment and remains near the bottom of the *Doing Business* rankings. Growth results will not be achieved without full implementation of reform plans to improve the environment in which the private sector operates. Given Benin's agricultural potential, its strategic geographic position, and the entrepreneurial spirit of its citizens, an improved enabling environment could well unlock the potential of the private sector as the primary driver of economic growth and prosperity.

B. Infrastructure Development

9. **The PRSP III correctly identifies economic infrastructure as critical for development.** Improved infrastructure and the provision of infrastructure services will play a key role in supporting economic growth and diversification. Extension of infrastructure is needed to link producers to markets, reduce factor costs, increase economic competitiveness, and deliver essential services to the public. Staffs agree that the focus on transportation, energy, communication, water and sanitation, housing, and urban development represents key challenges. Equal emphasis on both the development of new infrastructure and on repair and maintenance of existing infrastructure is necessary. Given the scale of demand for improved and increased access to infrastructure services, priorities should be established and systems put in place to ensure investment and maintenance expenditure is focused on removing the most binding constraints to economic growth and competitiveness. This applies not only to hard

infrastructure, but also to the policy and institutional environment within which physical infrastructure is situated. The authorities are invited to call on their technical and financial development partners to assist them in this endeavor.

C. Strengthened Human Capital

10. **Staffs commend the authorities for emphasizing the need to improve the quality of life through improvements in health and education, and through the pursuit of other MDGs.** Staffs concur with the authorities' priorities in this respect: reducing maternal and child mortality; improving maternal health; addressing the challenges of HIV/AIDS, malaria, and tuberculosis; strengthening educational results at all levels; improving the nutritional status of the population; reinforcing social safety nets; and promoting gender equality. The PRSP III also highlights the increased demands a rapidly growing population will impose on social services, the large resource demands involved in extending access to these services, and the challenges these pose to reaching development objectives.

11. **Strengthening Benin's human capital base will depend not only on efforts to expand access to social services, including education and health services, but also on the quality of services provided.** The focus on access to education and health services in the PRSP III is welcome and recent progress in this regard is recognized, but further emphasis might also be placed on measures to increase the quality of services and on indicators measuring qualitative outcomes. This is particularly the case in education where quantitative indicators, such as enrolment rates and completion rates, do not reflect the educational attainment of students and graduates. Recent results have indicated that although quantitative measures have improved, qualitative outcomes may have in fact regressed. Inclusion of more qualitative results indicators, that can usefully measure strengthened human capital, may be advisable.

12. **Achieving gender equality requires consideration of the different needs of women and men.** Gender is a multidimensional and cross-sectoral issue rooted in various economic, cultural, social, and religious norms. It is encouraging to note that gender issues are incorporated throughout the strategy, and that the differing needs of women and men are identified where relevant, and challenges to reducing inequalities are highlighted. However, it is largely only in the section on human capital that specific measures and actions are noted, and results indicators differentiated by gender are included. To reduce gender disparities and fully tap the potential of women in contributing to, and benefiting from, economic growth, greater integration of women's needs should be considered not only in the social sectors, but in the productive sectors as well.

D. Good Governance

13. **The PRSP III acknowledges areas where the quality of governance must be strengthened to facilitate stronger economic growth and to deliver more effective public services.** A candid account shows where governance could be better, including in public financial management, budget planning, budget execution, and accountability standards. Judicial and civil service reforms are noted as priorities. Improved environmental stewardship is also a stated goal. Weaknesses have been evident for some time in many of these areas, and thus it is less a matter of selecting priorities and more an issue of effectively implementing already identified reforms. Necessary efforts in good governance, particularly in improving public

financial management, could be made more explicit as PRSP III implementation proceeds and in future updates of the PAP.

14. **WAEMU directives contain an ambitious public financial management reform agenda that will have to be taken into account in implementing the PRSP III.** While Benin is well advanced on some of these reforms compared to peers in the WAEMU, considerable progress remains to be achieved. Program-based budgeting, for example, is practiced in sectoral ministries, but is not integrated into the annual national budget. Similarly, the creation of a “*Cour des comptes*,” in line with WAEMU directives, has yet to be accomplished. Finally, while the deadlines for some of these regional directives are some time off, the effort to implement the required changes is significant—a case in point is the move to accrual accounting. The authorities are advised to take full advantage of the forthcoming IMF Fiscal Affairs Department diagnostic mission, as well as of the services of West AFRITAC,¹ to assist with the above-noted public financial management reforms.

15. **Issues of transparency, corruption, and abuse of privilege are notable in their absence.** The Government has made public statements on combating these issues and has taken some important steps to address them, including customs administration reforms, but much remains to be done. Governance could be strengthened through greater effort and a reaffirmation to combat those activities that seriously distort resource allocation, erode the business and investment climate, slow economic growth, and slow the pace of poverty reduction. Although reducing opportunities for corruption and improving transparency in public financial management are identified as objectives, concrete measures and actions will need to be identified for implementation.

E. Balanced and Sustainable Regional Development

16. **Staffs commend the authorities for their commitment to a shared and equitable development process.** Decentralization and deconcentration will be important to achieving objectives and will require further transferring of decision making to local authorities and a greater devolution of responsibilities and attendant financial and human resources to the community level. The authorities are encouraged to continue with their decentralization plans and to establish clear timetables and benchmarks for meeting their objectives.

17. **Land reform is important and will prove increasingly so as efforts to diversify agriculture and improve the business environment and investment climate proceed.** Recognizing the inherent sensitivity of land reform and the limited progress made under the PRSP II, it is encouraging to see a renewed commitment to furthering land reform in the PRSP III.

18. **Environmental issues are addressed in the PRSP III, though perhaps not as rigorously as might have been expected, particularly in light of the recent floods.** Note is taken of some of the outstanding environmental issues, including coastal erosion, climate change, and improved natural resource and forest management. As is the case with gender issues,

¹ The IMF’s West Africa Regional Technical Assistance Center.

environmental issues may have been better addressed in a more mainstream fashion, though it is encouraging that attention will be devoted to significant environmental issues during 2011–15. Attention should, in particular, be given to environmental issues associated with recent floods, notably the need to develop protective infrastructure, particularly in flood-prone areas that have been recently urbanized or otherwise settled; the need to strengthen the sanitation and water supply systems and make them more resilient to natural events such as floods; and the need to strengthen emergency-relief services in response to the intensification of severe weather events associated with global climate change.

IV. MACROECONOMIC SCENARIOS

19. **The Government presents two macroeconomic scenarios and related medium-term expenditure frameworks—one of which is significantly more ambitious than the macroeconomic framework in the program supported by the IMF.** Both scenarios are dependent on the authorities' capacity to mobilize resources, including significant internal resources and concessional external financing. Developing a medium-term strategy and improved capacity in project selection and execution will be essential for efficient use of resources. Achievement of the objectives associated with both scenarios would require significantly higher growth, higher government spending, larger deficits, and more borrowing than presently agreed to under the Extended Credit Facility (ECF) program supported by the IMF.

- **The “central” scenario, with an average growth rate of 6 percent over the 2011-15 period, is highly optimistic.** It envisages a favorable global economic environment during the implementation period, a strong agricultural supply response, and a strong growth response to the Government's proposed policy framework. The assumptions and targets implicit in the central scenario reflect desired outcomes rather than realistic expectations, thus basing policies on this scenario could jeopardize macroeconomic stability and long-term fiscal and debt sustainability.
- **The “alternative” scenario, with an average growth rate of 4.5 percent, is better aligned with Benin's ECF.** This scenario is more realistic in its projections, so development plans should be based on this premise. It would be preferable to use this scenario as the main reference for policy decisions, and pursue more ambitious objectives only once conditions and outlooks improve and initial results have been achieved.

20. **Even implementing the more realistic alternative scenario will require significant strengthening of revenue collection, reorientation of spending toward investment, and accelerated structural reforms to strengthen competitiveness.** Strengthening revenue collection by developing a tax regime for development, as envisaged in the PRSP III, is important. The measures contemplated in the PRSP III to extend the tax base, including to the informal sector; rationalize tax exemptions; simplify the tax structure; streamline tax compliance procedures; and modernize and strengthen tax and customs administration, all go in the right direction. To ensure the effectiveness of the envisaged reforms and to create fiscal space for priority social spending and investment, it is important to improve efficiency in public service delivery, align the increase in the wage bill with available resources, and implement civil service reform, including a results-oriented remuneration system.

21. **With limited financial resources, greater specificity in identifying priorities and costing the various measures planned would be beneficial.** Although the PAP indicates some individual priority activities, it is less clear about how the intended results will be achieved with the resources available. The achievement of the envisaged results is dependent on the mobilization of sufficient resources—the sources of which have yet to be identified. As such, greater clarity in the prioritization of actions and activities would strengthen the PRSP III, its implementation, and monitoring. Examples of insufficient specificity are the social protection and social safety net systems. Recent shocks, including food and fuel price increases, the global financial crisis, and the 2010 floods, have highlighted the need for social protection and safety nets. Accordingly, these areas are identified in the PRSP III as a priority, yet specific supporting actions are unidentified and uncosted in the PAP. Furthermore, the PRSP III and the PAP use different methods for the overall framework. To increase transparency and improve the follow up on priority actions, the methods in these two documents should be harmonized.

V. MONITORING AND EVALUATION

22. **As was the case in the PRSP II, a poverty analysis is included in the PRSP III.** Having completed a household survey in 2009, following similar surveys undertaken in 2006 and 2007, and with another household survey planned for September 2011 a more comprehensive and robust poverty analysis will soon be possible. Indeed, some of the poverty results reported in the PRSP III raise questions about the quality of the data and the analysis, as was the case with the PRSP II. Staffs welcome the identification of needs to strengthen capacity within Benin's statistical institutions. This will be important going forward, both in terms of evaluating progress in meeting PRSP objectives and better understanding poverty across Benin so that policy formulation and implementation and the delivery of services may be better informed.

23. **While the monitoring and evaluation framework for the PRSP II appeared generally adequate, the Government is candid in the PRSP III about the framework's weaknesses.** The PRSP III articulates the challenges and difficulties encountered during the PRSP II implementation in monitoring and evaluation. In response, the PRSP III seeks to strengthen stakeholder empowerment to ensure improved monitoring and evaluation at the various implementation levels, from central government institutions and ministries to local community administrations and public stakeholders.

24. **The PRSP III includes a matrix which identifies objectives and provides verifiable indicators of progress.** However, some indicators/targets should be quantified. The matrix also identifies institutions responsible for collecting and reporting on each of the targets. Given the data from the recently completed household survey, it may be beneficial to include more poverty-related measurements in the matrix, including poverty benchmarks and baselines. In addition, Staffs think it may be worthwhile to include results from the forthcoming Poverty Assessment. The matrix would also be strengthened by inclusion of disaggregated, gender-based poverty measurements. This would facilitate subsequent policy analysis, assessments of policy effectiveness, and future economic and social policymaking.

25. **Given the focus on fostering equitable regional development, greater disaggregation of results on a regional basis would be useful.** This would help empower regional decision makers and strengthen decentralization and deconcentration efforts by identifying lagging

regions and identifying regions where greater resources may be needed or where implementation or monitoring capacities may need strengthening.

26. **Two committees are planned to strengthen implementation and monitoring.** A national, high-level committee (*Conseil d'orientation*), comprising key central and line ministries, will oversee broad implementation and provide high-level engagement with the donor community. A Steering Committee (*Comité de pilotage*), which will again include key central ministries, will monitor PRSP III implementation and will work closely with the National Assembly, civil society, and the donor community through regular monitoring and evaluation. At the sectoral level, ministries and their respective monitoring and evaluation units will be responsible for facilitating a coordinated and coherent data collection and information system. At the decentralized level, departmental committees will monitor the implementation of departmental programs and the collection and analysis of sectoral data. Finally, at the local/communal level, communal monitoring committees will be formed, chaired by mayors, and will meet quarterly to ensure that local data and information is collected and conveyed. The proposed monitoring and evaluation system represents an improvement over the PRSP II system, but its performance will depend on effective implementation and empowerment of the various committees.

27. **Improved engagement of civil society in the monitoring of the implementation of the PRSP III would be welcome.** Given the concerns expressed by some groups that the process of design and articulation of the PRSP III was not fully participative, there is an opportunity to involve civil society in the implementation of the PRSP III and its monitoring. There is a well-established process in Benin for monitoring PRSP implementation, and the Government should take full advantage of this system.

VI. CONCLUSION, RISKS, AND RECOMMENDATIONS

28. **Staffs believe the PRSP III provides an adequate framework for poverty reduction in Benin.** The strategy addresses the critical constraints and challenges facing Benin and builds on Benin's comparative advantages. The objectives under the strategy are well articulated and the vision is clear. Staffs recommend that the authorities focus their efforts on the more realistic "alternative" scenario. Although ambitious and based on optimistic forecasts, objectives within the alternative scenario may be considered attainable, but only if accompanied by a similarly ambitious effort and commitment to reform and effective and timely implementation. Improved results and historically high growth rates will not be achieved in a "business as usual" environment. Authorities should consider the "central" scenario only under the most favorable developments and after an initial period of confirmed, exceptional development success under the alternative scenario.

29. **The PRSP III provides a vision of where the authorities would like to take Benin by 2015.** Although the PRSP III provides general guidance on how to achieve these objectives and implement this vision, it lacks to some degree the specificity required to ensure results. The accompanying PAP, while providing these details, is at the other extreme, overly detailed and insufficiently prioritized to inform allocation decisions meaningfully with limited resources. While this level of detail is beneficial in identifying the broad range of actions that could

contribute to attaining the objectives, it becomes less so without adequate prioritization and a realistic notion of which elements are truly implementable given available resources.

30. **The successful implementation of the PRSP III could be hampered by a number of risks.** Risks to the authorities' very high-growth ("central") scenario lie in the relatively soft global economy and Benin's vulnerability to possible adverse developments in Nigeria. Pursuing this scenario without adequate financial resources could jeopardize the macroframework and debt sustainability. Another risk is the uncertain availability of sufficient external concessional financing for the public investment program in the medium term. Risks associated with terms-of-trade shocks remain significant, but could be mitigated by the diversification of the economy pursued in the PRSP III. Unpredictable shifts in regional trade patterns and a decline in informal transit trade could have a permanent adverse impact on customs revenue. Risks could stem from the inability of collecting revenue in line with the planned revenue increase. Given recent demands from public sector unions, potential wage increases pose a significant risk to the fiscal framework, as they could compromise fiscal and debt sustainability and could crowd out priority social spending and investment. Renewed efforts to enforce prudential regulations and strengthen oversight of the financial system, especially of microfinance institutions, are needed to strengthen the stability of the financial sector and avoid the risk of the resurgence of illegal financial schemes.

31. **To strengthen the PRSP III as it moves into implementation, Staffs recommend attention to:**

- **Improving alignment of necessary actions and activities in support of the PRSP III objectives with realistically available resources**, improving identification of priorities, and increasing focus on actions and activities critical to the achievement of results. The PAP is too comprehensive and insufficiently prioritized to be useful in making the important allocation decisions that inevitably will arise.
- **Strengthening governance** through greater efforts to meet WAEMU public financial management directives on transparency, corruption, and abuse of privilege issues that seriously distort resource allocation, erode the business and investment climate, slow economic growth, and hamper poverty reduction.
- **Improving the environment in which the private sector operates**, as PRSP III implementation will be public-resource constrained and the role of the private sector will be important to meeting stated goals, particularly economic growth objectives.
- **Reducing gender disparities** and fully tapping the potential of women in contributing to, and benefiting from, economic growth, recognizing that greater integration of the needs of women will have to be considered not only in the social sectors, but also in the productive sectors.
- **Addressing environmental issues in a more mainstream and specific fashion.** This is particularly important following the devastating floods of 2010 and the risk that such

catastrophes could become more frequent as a result of climate change.

- **Strengthening poverty analysis and improving understanding of the determinants and dynamics of poverty in Benin** by further analyzing the recent household survey data through greater cooperation with development partners in undertaking fundamental poverty analysis, and by making all poverty and household survey–related data publicly available.
- **Enhancing the results matrix and monitoring and evaluation framework** by including more critical poverty measures and results disaggregated by gender and region.

32. **In considering the PRSP III and the JSAN, Executive Directors’ views are sought** on whether they concur with areas identified by Staffs as (i) appropriate priorities for strengthening implementation of the PRSP III; and (ii) key implementation risks.