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November 25, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Benin - Staff Report for the 1992 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1992 Article IV consultation with Benin and its request for arrangements under the enhanced structural adjustment facility. A draft decision appears on page 24.

This paper, together with the policy framework paper for Benin (EBD/92/284, 11/25/92), is tentatively scheduled for discussion on Monday, December 21, 1992.

Mr. Sacerdoti (ext. 38514) or Mrs. Kabedi (ext. 38380) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

BENIN

Staff Report for the 1992 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Prepared by the African Department and the Policy Development and Review Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by C. Brachet and Michael Edo

November 25, 1992

I. Introduction

The 1992 Article IV consultation discussions with Benin, together with negotiations on a program that could be supported by an arrangement under the enhanced structural adjustment facility (ESAF), were initiated in Cotonou during the period June 22-July 8, 1992 and concluded in Washington during September 22-30, 1992. 1/ In support of this program, the Government of Benin, in a letter to the Managing Director, dated November 9, 1992 (Appendix I), has requested a three-year arrangement under the ESAF in an amount equivalent to SDR 46.95 million, (representing 150 percent of Benin's old quota, or 103.6 percent of the new quota) and the first annual arrangement thereunder, in an amount equivalent to SDR 15.65 million (50 percent of old quota or 34.5 percent of the new quota). The ESAF program is to cover the period October 1, 1992-September 30, 1995.

The Beninese authorities, in collaboration with the staffs of the Fund and the World Bank, have prepared a policy framework paper (PFP) outlining the Government's economic and financial objectives for the period 1992-95, and the macroeconomic and structural policies designed to attain these objectives (EBD/92/284); the present PFP is an extension of the PFP for 1991-94 (EBD/91/187; 6/7/91) which supported the request for the second

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1/ The Beninese representatives included Mr. Paul Dossou, Minister of Finance; Mr. Robert Tagnon, Minister of Planning; Mr. Antoine Gbegan, Minister of Administrative Reform and Civil Service; Mrs. Veronique Ahoyo, Minister of Labor; and Mr. Paul Cossi, National Director, BCEAO. The staff team (all AFR) consisted of Mr. Sacerdoti (head), Mr. Kakoza, Ms. Kabedi, Mr. Abdoun, Mr. Driessen, and Ms. Casaromani (assistant). The mission was assisted by Mr. P. Péroz, the Fund resident representative in Cotonou. Mr. Obame, Advisor to the Executive Director for Benin, also participated in the policy discussions.

annual arrangement under the structural adjustment facility (SAF). The PFP document was transmitted to the Managing Director of the Fund and the President of the World Bank on November 6, 1992.

Benin's request for arrangements under the SAF, in an amount equivalent to SDR 21.91 million, or 70 percent of quota, was approved by the Executive Board on June 16, 1989. Benin received two disbursements under the first and second annual SAF arrangements equivalent to SDR 15.65 million (50 percent of quota). As of August 31, 1992, Benin's use of Fund credit outstanding amounted to 50 percent of quota, all of which was on account of loans under the SAF.

If the full amount available under the three-year ESAF arrangement is disbursed in accordance with the proposed schedule (Table 1), and taking into account repayments due during the period, Benin's outstanding use of Fund credit would amount to the equivalent of 194 percent of quota by the end of the ESAF arrangement, all in respect of loans under the SAF and ESAF (Table 2). Benin has met its financial obligations to the Fund in a timely manner. Benin's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.

Benin is on the standard 12-month Article IV consultation cycle. In completing the last consultation on July 26, 1991, the Executive Board, recognizing that Benin's economic and financial situation would remain fragile, urged the authorities to take every precaution to avoid policy slippages. They emphasized the pivotal role of fiscal policy and public sector management in the adjustment effort and stressed that the success of the program would depend on the pursuit of prudent macroeconomic policies and the timely implementation of structural measures. Directors also underscored the need for measures to improve the economy's competitiveness.

Benin continues to avail itself of the transitional arrangements under Article XIV, Section 2.

II. Recent Developments and Performance Under the SAF-supported Program

As indicated in the attached PFP and memorandum on economic policies, Benin started its structural adjustment program at a particularly difficult time. Because of inappropriate policies over an extended period, real economic growth had been negligible in the five years ending in 1989, while per capita income had declined significantly. The state enterprise sector, which had dominated all aspects of economic activity, had become insolvent, with most enterprises relying on subsidies and mandated bank loans to stay in business. The state-owned banking system, saddled with increasingly nonperforming loans to the parastatal sector, had eventually collapsed in 1988-89, a collapse that had left in its wake a severe liquidity crisis and a sharp rise in the Government's domestic debt as a result of the latter's assumption of the failed banks' liabilities to the Central Bank and private depositors. The private sector, constrained by extensive regulation and

Table 1. Benin: Schedule of Disbursements Under ESAF Arrangement

Amount	Availability Date 1/	Conditions for Disbursement 2/
SDR 7.825 million	December 30, 1992	Executive Board approval of the three-year ESAF arrangement and first annual arrangement thereunder
SDR 7.825 million	May 30, 1993	Observance of the end-March 1993 performance criteria and completion of midterm review
SDR 7.825 million	November 30, 1993	Executive Board approval of the second annual arrangement
SDR 7.825 million	May 30, 1994	Observance of performance criteria for end-March 1994 and completion of midterm review
SDR 7.825 million	November 30, 1994	Executive Board approval of the third annual arrangement
SDR 7.825 million	May 30, 1995	Observance of performance criteria for end-March 1995 and completion of midterm review

Source: IMF.

1/ Actual date of disbursement.
2/ Other than the generally applicable conditions under ESAF arrangement, including the performance clause on exchange and trade system.

Table 2. Benin: Fund Position During 1989-95

	1989	1990	1991	1992		1993		1994		1995	
				Jan.- June	July- Dec.	Jan.- June	July- Dec.	Jan.- June	July- Dec.	Jan.- June	July- Dec.
	(In millions of SDRs)										
Transactions under tranche policies (net)	--	--	--	--	--	--	--	--	--	--	--
Purchases	--	--	--	--	--	--	--	--	--	--	--
Ordinary resources	--	--	--	--	--	--	--	--	--	--	--
Enlarged access resources	--	--	--	--	--	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--	--	--	--	--	--
Ordinary resources	--	--	--	--	--	--	--	--	--	--	--
Borrowed resources	--	--	--	--	--	--	--	--	--	--	--
Structural adjustment facility (SAF)											
Loans	6.26	--	9.39	--	--	--	--	--	--	--	--
Repayments	--	--	--	--	--	--	--	--	0.63	0.63	0.63
Enhanced structural adjustment facility (ESAF) loans	--	--	--	--	7.83	7.83	7.83	7.83	7.83	7.83	--
Total Fund credit outstanding (end of period)	6.26	6.26	15.65	15.65	23.48	31.30	39.13	46.95	54.15	61.35	60.72
Tranche policies	--	--	--	--	--	--	--	--	--	--	--
SAF	6.26	6.26	15.65	15.65	15.65	15.65	15.65	15.65	15.02	14.40	13.77
ESAF	--	--	--	--	7.83	15.65	23.48	31.30	39.13	46.95	46.95
	(As percent of quota)										
Total Fund credit outstanding (end of period)	20.00	20.00	50.00	50.00	75.00	100.00	125.00	150.00	173.00	196.00	194.00
Tranche policies	--	--	--	--	--	--	--	--	--	--	--
SAF	20.00	20.00	50.00	50.00	50.00	50.00	50.00	50.00	48.00	46.00	44.00
ESAF 1/	--	--	--	--	25.00	50.00	75.00	100.00	125.00	150.00	150.00

Source: International Monetary Fund, Treasurer's Department.

1/ Including ESAF Trust Account.

lacking confidence in government policies, had been conducting its operations increasingly in the informal sector. The Government, overwhelmed by growing demands for political reform, and facing a severe cash squeeze, was paralyzed and in disarray.

The comprehensive structural adjustment program launched in early 1989 involved a major reorientation of economic policies. The new development strategy emphasized the reduction in the size and role of the public sector, the creation of a more favorable environment for the private sector, and the restoration of prudent macroeconomic policies. The program for 1989-92 aimed at (a) laying the foundation for a sustainable recovery of output, to an average annual growth rate of 4 percent; (b) containing the rate of increase in domestic prices and costs within limits that would permit an improvement in the economy's competitiveness; and (c) achieving a significant progress toward financial viability. To attain these objectives, the program contained a package of measures encompassing fiscal reforms, the rehabilitation of the banking system, the restructuring of the parastatal sector, the reduction in state controls and intervention in economic activity, and far-reaching structural reforms in several key sectors of the economy.

Implementation of the program during 1989-90 was seriously hampered by the struggle for political reform and associated social unrest, and the intensification of the financial crisis. Adjustment measures proved difficult to implement, and the efficiency of public administration deteriorated markedly. However, following the establishment of democratic institutions and a popularly elected Government during the first half of 1991, the pace of program implementation accelerated, and considerable progress was made toward achieving the program's macroeconomic objectives and in instituting structural reforms.

With the return to political stability, and the associated improvement in internal and external confidence, the economy recovered noticeably. Real GDP growth rebounded to about 4 percent on an annual average during 1990-91, and is projected to maintain that pace in 1992 (Table 3). A main factor in GDP growth was the rapid expansion of cotton production, which rose from 107,000 tons in 1988/89 to 177,000 tons in 1991/92, as a result of attractive producer prices, cuts in intermediation costs, and efficient extension services. Transit trade also expanded substantially, with port traffic more than doubling between 1988 and 1991, after having declined sharply from the mid-1980s, reflecting the return to political stability. However, the economic recovery, while significant, merely arrested the decline in per capita income experienced over the previous five years. Inflation remained low, averaging less than 3 percent a year.

The 1989-92 program placed a high priority on fiscal reforms as the fulcrum of structural adjustment and macroeconomic policies. The program aimed at a substantial improvement in the Government's financial position through an improvement in the tax effort and a rationalization of public expenditures. After having widened significantly in 1989, to 10.6 percent

Table 3. Benin: Selected Economic and Financial Indicators, 1989-95

	1989	1990	1991 Prog.	1991 Est.	1992	1993	1994	1995
	(Annual percentage change, unless otherwise specified)							
National income								
GDP at current prices	-0.7	4.9	5.9	6.8	6.5	7.0	7.0	7.0
GDP at constant prices	-2.8	3.7	3.0	4.7	3.9	4.0	4.0	4.0
Implicit GDP deflator	2.2	1.2	2.9	2.0	2.5	2.9	2.9	2.9
Central government finance								
Revenue	-26.9	11.1	15.8	23.3	12.7	10.0	6.8	6.6
Expenditure and net lending	-10.9	4.4	11.2	0.1	24.5	-5.7	1.9	1.5
Money and credit 1/ 2/								
Net domestic credit	-15.8	20.5	1.2	-1.3	4.5	6.6	5.6	3.7
Of which: net claims on Government	(1.4)	(16.9)	(5.1)	(-6.8)	(-7.5)	(1.2)	(0.5)	(-1.4)
Credit to nongovernment sector	-14.3	3.6	6.3	5.5	12.0	5.4	5.1	5.0
Broad money	10.9	58.2	18.4	33.9	25.2	18.3	13.5	13.3
Velocity (GDP relative to M2)	3.7	5.7	5.2	4.5	3.7	3.4	3.2	3.0
External sector (in CFA francs)								
Exports f.o.b., excluding re-exports	47.5	8.8	6.9	15.8	5.6	4.4	19.8	13.8
Imports f.o.b., excluding re-exports	-13.5	14.1	21.7	13.1	8.3	6.9	6.8	6.7
Terms of trade	-14.7	28.6	-11.3	-18.0	-19.2	-4.6	-0.9	-0.4
Nominal effective exchange rate (- depreciation)	5.5	0.9	1.5	1.6	...	...	...	...
Real effective exchange rate (- depreciation)	-2.0	3.7	2.6	-2.7	...	...	...	...
	(In percent of GDP, unless otherwise specified)							
Basic ratios								
Fixed investments	11.7	11.8	13.1	11.6	13.0	13.9	14.0	14.1
Gross domestic savings	2.8	3.9	1.5	3.1	3.7	4.6	5.7	6.7
Gross national savings	4.7	5.6	2.6	4.8	4.4	6.0	7.1	8.0
Central government finance								
Revenue	9.4	9.9	10.6	11.5	12.1	12.5	12.4	12.3
Expenditure and net lending	20.0	19.9	20.3	18.7	21.8	19.2	18.3	17.4
Overall fiscal deficit (commitment basis) 3/	10.6	10.0	9.8	7.2	9.7	6.7	5.8	5.0
Overall fiscal deficit (cash basis) 3/	13.5	10.4	12.6	7.9	11.0	7.6	6.6	5.7
Exceptional financing requirement	26.2	6.4	10.9	8.7	12.8	5.5	4.0	3.1
Grants	6.2	2.4	2.3	1.6	2.6	2.4	2.6	2.4
External sector								
Current account deficit 3/	6.3	7.0	11.2	6.8	8.6	8.0	6.9	6.1
Overall balance of payments deficit	2.5	1.9	5.9	--	7.8	1.3	0.6	-0.5
Debt service ratio (before rescheduling)	43.5	19.8	18.2	14.3	37.6	19.6	16.1	15.7
	(In millions of U.S. dollars, unless otherwise specified)							
Overall balance of payments deficit	*37.3*	*34.9*	*120.4*	*5.0*	*139.6*	*34.6*	*13.3*	*-12.6*
Gross official reserves	3.5	82.7	110.0	191.9	320.8	420.8	509.5	609.1
Exceptional financing requirement	393.4	117.4	221.5	164.8	278.7	130.3	103.3	85.6
Nominal GDP (in millions of U.S. dollars)	1,502.9	1,846.9	2,028.1	1,903.9	2,174.9	2,382.1	2,549.1	2,726.5
Nominal GDP (in billions of CFAF)	479.4	502.8	547.6	537.1	572.0	612.2	655.1	700.7

Sources: Data provided by the Beninese authorities; and staff estimates and projections.

1/ In percent of broad money at the beginning of period.
2/ Following the collapse of the banking system in 1989, monetary data from 1990 onward are based on the new banks only and exclude the liquidated banks.
3/ Before official grants.

of GDP, largely as a result of a sharp drop in revenue caused by social unrest and the liquidity crisis, the overall budget deficit narrowed to 10.0 percent of GDP in 1990 and to 7.2 percent in 1991, generally in line with the revised program targets for those two years (Table 4). A key policy objective of the fiscal program was a substantial improvement in the narrowly defined primary budget balance, 1/ from a deficit position equivalent to about 2 percent of GDP in 1989 to equilibrium by 1991; this objective was attained, with a current surplus of 0.5 percent of GDP recorded in 1991.

Fiscal performance in 1991 reflected, to a great extent, the buoyant recovery of government revenue, which exceeded the program target by about 6 percent. The strong revenue outturn was due to the very successful implementation of the value-added tax (VAT) introduced earlier in the year, and steady improvements in tax administration from 1988. Primary expenditures, however, exceeded the program targets, largely because of delays in implementing the civil service reforms (see below). Because of that delay, however, and the slow progress in putting together the other elements of the short- and long-term measures relating to the social dimensions of adjustment, outlays on the emergency social program, (externally financed) amounted to only CFAF 0.9 billion, instead of the CFAF 5.9 billion envisaged. Outlays on materials and supplies were maintained below budget, although there was a significant increase in expenditure to compensate for the previous neglect of the health and education sectors. While capital outlays were broadly in line with projections, monitoring of investment spending remained deficient, resulting in insufficient allocation of local counterpart funding and substantial delays between the physical execution of projects and disbursements of related external resources.

Monetary and credit developments reflected the progress in fiscal adjustment as well as the renewed confidence in the banking system. During 1989-90 credit to the private sector had fallen sharply, owing to the collapse of the state banks and the cautious credit policies of the new banks; most benchmarks relating to net bank credit to the Government, on the other hand, had been exceeded, owing to the shortfall in government revenue and external assistance occasioned by the domestic social instability. In contrast, during 1991 and the first half of 1992, net bank credit to Government, as well as the net domestic assets of the banking system, remained within the program benchmarks (Table 5). Total deposit liabilities of the new banks increased tenfold, with renewed confidence in the domestic banking system supporting a sharp increase in demand for real money balances. With money demand outpacing credit growth, the net foreign assets of the banking system grew much faster than programmed, triggering the return of private capital and the increase in external assistance.

1/ Defined as domestic revenue less current expenditure (including the Government's contribution to the investment budget, but excluding interest charges).

Table 4. Benin: Consolidated Government Operations, 1989-95

(In billions of CFA francs)

	1989	1990	1991 Prog.	1991 Est.	1992 Program	1993 Program	1994 Projections	1995 Projections
Total revenue	61.4	49.9	57.8	61.5	69.4	76.3	81.5	86.9
Tax revenue	47.6	39.6	47.5	47.2	57.5	64.1	69.4	74.6
Nontax revenue	11.7	8.7	8.5	11.9	9.1	9.4	9.3	9.5
Enterprise contributions to debt service	2.2	1.6	1.8	2.4	2.8	2.8	2.8	2.8
Total expenditure	107.6	100.1	111.3	100.2	124.7	117.6	119.8	121.6
Primary expenditure 1/	67.3	56.3	57.8	58.8	62.2	62.9	64.2	64.9
Salaries, pensions, and scholarships	48.6	43.5	43.9	45.5	46.4	44.4	43.2	42.6
Other expenditure and current transfers	15.0	11.9	12.0	11.7	13.1	14.4	15.4	16.4
Contribution to investment	3.6	0.9	1.9	1.6	2.7	4.1	5.6	6.0
Primary balance	-5.9	-6.4	--	2.7	7.2	13.4	17.3	21.9
Interest	10.4	15.3	19.9	13.9	22.2	18.6	19.0	20.0
Internal debt	3.0	4.7	5.7	5.2	4.9	4.5	4.6	4.6
External debt	7.4	10.6	14.2	8.7	17.3	14.1	14.4	15.5
Investment expenditure (externally financed)	29.9	26.0	27.6	26.6	30.1	31.0	32.8	36.6
Emergency social program	--	2.5	5.9	1.0	10.2	5.2	3.8	--
Overall deficit (commitment basis)	-46.2	-50.2	-53.5	-38.7	-55.3	-41.3	-38.3	-34.7
Changes in expenditure related arrears	14.5	-2.3	-15.4	-3.8	-7.5	-5.0	-5.0	-5.0
External interest	6.8	5.5	-12.1	-4.9	-0.1	--	--	--
Domestic	7.7	-7.7	-3.3	-2.6	-7.4	-5.0	-5.0	-5.0
Of which: salaries	(--)	(-5.0)	(-0.6)	(2.2)	(-3.0)	(--)	(--)	(--)
Investment/Adjustment 2/	--	--	--	3.7	--	--	--	--
Overall deficit (cash basis) 3/	-31.7	-52.5	-68.9	-42.5	-62.8	-46.3	-43.3	-39.7
Financing	31.7	20.4	9.1	-3.9	-10.5	12.8	16.8	17.7
Domestic	-1.6	3.4	-6.5	-11.6	-7.0	-4.0	-4.7	-6.6
Bank financing (other than Fund)	-2.3	10.5	4.2	-10.5	-6.6	-2.0	-0.3	-0.5
Nonbank financing	0.7	-0.2	-0.4	-0.4	-0.2	--	--	--
Sale of assets	--	3.4	3.4	3.9	8.3	3.0	--	--
Rehabilitation of the banking system, BCEAO	--	-6.2	-8.7	--	-4.5	-2.0	-1.4	-3.1
Rehabilitation of the banking system, FIR	--	-4 1	-5.0	-4.6	-4.0	-3.0	-3.0	-3.0
External	33.3	17.1	15.6	7.7	-3.5	16.8	21.5	24.3
Official grants - projects	21.6	12.0	12.5	8.8	15.2	15.0	16.7	17.0
Drawings on loans - projects	12.9	14.0	15.1	17.8	14.9	16.0	16.1	19.6
Scheduled amortization	-10.8	-11.1	-6.6	-9.5	-33.4	-14.2	-11.3	-12.3
Changes in principal arrears	9.6	2.1	-5.4	-9.4	--	--	--	--
Exceptional financing	--	32.1	59.8	46.5	73.3	33.5	26.5	22.0
Of which:								
Debt relief	(--)	(5.9)	(27.5)	(26.2)	(39.0)	(1.8)	(--)	(--)
Bilateral/multilateral assistance	(--)	(26.2)	(32.3)	(20.3)	(34.3)	(21.8)	(9.7)	(3.1)
Residual financial gap	--	--	--	--	--	9.9	16.8	18.9
Memorandum items:				(In percent of GDP)				
Primary balance (deficit -)	-2.0	-1.3	--	0.5	1.3	2.2	2.6	3.1
Overall balance (deficit -) (commitment basis)	-10.6	-10.0	-9.8	-7.2	-9.7	-6.7	-5.8	-5.0

Sources: Data provided by the Beninese authorities; and staff estimates and projections. Components may not add up exactly to their indicated total owing to rounding.

1/ Excluding interest payments and investment expenditure financed directly from external resources, but including the national contribution to the investment program.

2/ Reflects the difference between investment expenditure committed and aid disbursement.

3/ Excluding official grants.

Table 5. Benin: Monetary Survey, 1990-93 1/

(In billions of CFA francs)

	1990	1991		1992						1993			
	Dec.	Dec.		March		June		Sept.	Dec.	March	June	Sept.	Dec.
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Est.	Program		Program			
	(In billions of CFA francs; end of period)												
Net foreign assets	18.9	29.5	54.6	31.2	64.8	50.9	70.9	75.3	83.0	89.4	95.8	102.3	108.7
BCEAO	19.3	27.9	47.5	...	52.7	...	61.1	70.3	78.0	84.4	90.8	97.3	103.7
Deposit money banks	-0.4	1.6	7.1	...	12.1	...	9.7	5.0	5.0	5.0	5.0	5.0	5.0
Net domestic credit	79.2	80.3	78.0	85.2	74.0	73.5	75.6	80.3	83.4	87.0	88.3	90.3	93.2
Net claims on the Government	76.3	71.8	70.2	71.2	56.0	62.5	58.1	66.3	61.4	60.0	61.3	61.3	63.2
Central Government	77.7	...	72.6	...	62.3	...	63.9	69.8	64.9	65.3	66.6	64.8	66.7
Of which: Consolidated debt 2/	(50.8)	(42.1)	(50.3)	(42.1)	(50.3)	(42.1)	(50.3)	(50.3)	(46.3)	(44.3)	(44.3)	(44.3)	(44.3)
Other (projects deposits)	-1.4	...	-2.4	...	-6.3	...	-5.8	-3.5	-3.5	-5.3	-5.3	-3.5	-3.5
Credit to non-Government sector	2.9	8.5	7.8	14.0	18.0	11.0	17.5	14.0	22.0	27.0	27.0	29.0	30.0
Of which:													
Crop credit	(0.2)	(3.5)	(--)	(7.7)	(6.0)	(3.5)	(4.5)	(--)	(4.0)	(7.0)	(5.0)	(5.0)	(4.0)
Ordinary credit	(2.7)	(5.0)	(7.8)	(6.3)	(12.0)	(7.5)	(13.0)	(14.0)	(18.0)	(20.0)	(22.0)	(24.0)	(26.0)
Total assets = Total liabilities	98.1	109.8	131.4	116.4	138.8	124.4	146.5	155.6	166.4	176.4	184.1	192.6	201.9
Broad Money (M2)	88.6	104.9	118.6	111.5	125.3	119.4	133.0	141.6	148.5	157.9	162.1	169.9	175.7
Currency	39.2	103.9 2/	46.5	110.5	46.6	118.4	48.0	48.0	50.0	53.0	52.0	52.0	55.0
Bank deposits	47.8	...	70.5	...	77.1	...	83.4	92.0	96.9	103.3	108.5	116.3	119.1
Of which:													
At BCEAO	6.2	...	6.5	...	5.1	...	6.9	7.0	7.0	7.0	7.5	7.5	8.0
At commercial banks	41.6	...	64.0	...	72.0	...	76.5	85.0	89.9	96.3	101.0	108.8	111.1
Deposits with CCP	1.6	1.0	1.6	1.0	1.6	1.0	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Medium- and long-term liabilities	2.4	5.7	6.1	5.7	6.3	5.7	6.3	6.3	9.2	9.2	12.1	12.1	15.0
SDR allocations	3.4	3.4	3.7	3.4	3.7	3.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Other items, net	3.7	-4.2	3.0	-4.2	3.5	-4.1	3.5	4.0	5.0	5.6	6.2	6.9	7.5
Memorandum items:	(Change in percent) 3/												
Net foreign assets	52.0	12.0	40.3	1.6	8.6	20.4	13.7	17.4	23.9	4.3	8.0	13.0	17.3
Domestic credit	20.5	1.2	-1.3	4.7	-3.4	-6.5	-2.1	1.9	4.5	2.4	3.3	4.6	6.6
Net claims on the Government	16.9	-5.1	-6.8	-0.6	-12.0	-8.9	-10.2	-3.3	-7.5	-0.9	-0.1	-0.1	1.2
Credit to non-Government sector	3.6	6.3	5.5	5.2	8.6	2.4	8.2	5.2	12.0	3.4	3.4	4.7	5.4
Broad money	58.2	18.4	33.9	6.3	5.6	13.8	12.1	19.4	25.2	6.3	9.2	14.4	18.3
Currency	5.4	...	8.2	...	0.1	...	1.3	1.3	3.0	2.0	1.3	1.3	3.4
Bank deposits	56.2	...	25.6	...	5.6	...	10.8	18.1	22.3	4.3	7.8	13.1	14.9
Of which:													
At commercial banks	(60.4)	(...)	(25.3)	(...)	(6.7)	(...)	(10.5)	(17.7)	(21.8)	(4.3)	(7.5)	(12.7)	(14.3)

Sources: Data provided by the Beninese authorities; and staff estimates and projections.

1/ In percent of broad money at the beginning of period.
2/ Debt resulting from the assumption by the Government of the indebtedness of the liquidated banks toward the Central Bank, which has been consolidated over the medium term.
3/ Currency and bank deposits.
4/ Following the collapse of the banking system in 1989, monetary data are based on the new banks only and exclude the liquidated banks.

In the period 1990-91 the external current account improved more than envisaged under the program, mainly because of the rapid rise in transit trade; with somewhat higher capital inflows than originally projected, the increase in reserves was higher-than-initially programmed for 1991. With low inflation and unchanged wage level since the mid-1980s, the real effective exchange rate declined by 3.5 percent since 1987 (Chart 1). At the same time, however, there was a marked decline in the terms of trade, owing mostly to the fall in international cotton prices. Nevertheless, containment of the operating costs of cotton marketing maintained the profitability of the sector.

As indicated in the PFP, substantial progress was made in the last three years in implementing structural reforms. In the area of public finance, the reforms undertaken resulted in a significant simplification of the tax system, a broadening of the tax base, a substantial improvement in tax administration and the consolidation of central government budgetary operations. The simplification and broadening of the tax base was made possible to a large extent by the introduction of the VAT and of presumptive taxes at the import and retail levels, which were intended to bring operators in the informal sector within the tax net. The VAT has contributed impressively to the buoyancy of the Beninese tax system, providing a revenue yield that is considerably higher than that from the taxes it replaced. A 3 percent presumptive tax was imposed at the customs level in June 1989; in May 1991, purchases by retailers were subjected to a withholding tax of 1-1.5 percent collected at the wholesale level. In both cases, the withholding tax constitutes a credit against profit taxes due.

A reform of the civil service was initiated leading to the departure of 1,590 employees from the civil service during 1989-90. In 1991, however, the departures program came virtually to a halt, because of the political transition, but the program resumed with some success in March 1992 and, as of end-August 1992, 2,178 people had taken advantage of the incentives offered.

Noteworthy progress was also made in rebuilding the banking system, with the establishment of four new banks, and the partial reimbursement of depositors of the liquidated banks, with resources mainly obtained from foreign donors. Out of a total of a total of frozen private sector deposits of CFAF 74 billion at end-1989, CFAF 16.1 billion was repaid by end-1991.

Considerable strides were also made in restructuring the public enterprise sector, deregulating the economy, and creating a more favorable environment for the private sector. The number of enterprises in the government portfolio was reduced from 40 at end-June 1989 to 25 at end-June 1992. Import licensing procedures were eliminated in stages through end-October 1992, while commercial and industrial and regulations were substantially reduced. As discussed in paragraphs 38-45 of the PFP, sectoral reforms were also implemented in agriculture, education, health, energy, and transportation.

III. Report on the Discussions and Program for 1992/93

1. Main objectives

The discussions with the authorities took place against the backdrop of Benin's encouraging performance under the SAF program but also of a reassessment of medium-term prospects in the light of recent projections on the international environment. Despite the modest economic recovery witnessed during 1990-92, it was agreed that Benin's economic and financial situation remains fragile, and that a substantial strengthening of the adjustment effort was needed to maintain the growth rate at a higher level that would ensure a recovery in per capita income and yet prove sustainable over the medium term. In spite of the progress made, important problems remain in several areas. Regarding public finance, while there has been a significant improvement in revenue performance, the revenue-to-GDP ratio remains relatively low; at the same time, considerable additional effort will be required to improve tax administration, especially in the customs directorate, and to streamline the external tariff. Given the lengthy delays in implementing the civil service reform, expenditure policy continues to be burdened by a disproportionately high share of personnel outlays, which restricts the ability of the Government to contribute to the capital budget; moreover, there remain significant structural weaknesses in budgetary accounting and in the execution and monitoring of investment outlays.

Regarding the reform of the financial system, the rehabilitation of the rural credit scheme and the postal savings and checking system has yet to be completed; in the meantime the rural sector has very limited access to formal credit. The recovery of loans owed to the liquidated banks has been relatively slow until early 1992, leaving the task of reimbursing depositors largely to the foreign-financed compensation fund (FIR). Furthermore, despite the substantial repayments made by the Government to the Central Bank (BCEAO), advances to Government remain above the statutory level, thereby contributing to heavy interest charges in the budget. In the public enterprise sector, several large enterprises are yet to be privatized or liquidated; and for several enterprises previously dissolved, the liquidation process has become unduly protracted. Moreover, the social security agency is continuing to experience financial difficulties as a result of delays in implementing urgently needed reforms. In the area of economic deregulation and promotion of the private sector, it appears that Benin's cost structure is at the lower end among the member states of the West African Monetary Union (UMOA), but that it is nonetheless relatively high compared with key regional trading partner countries, particularly Nigeria.

The authorities' strategy and policies to address these problems and accelerate the pace of economic recovery are set out in the updated PFP for the period 1992-95. Policies and targets envisaged for the period October 1992 to September 30, 1993 are described in the letter in Appendix I. The authorities' medium-term objectives are as follows: (a) to accelerate the rate of economic growth to an average of 4 percent a year; (b) to limit the annual increase in domestic prices and costs to less than 3 percent; (c) to reduce external and internal imbalances further with a view to attaining a more viable balance of payments position by the end of the program period; and (d) to protect vulnerable groups from the adverse effects of adjustment and reduce poverty.

These objectives are to be pursued in the context of an external environment that has deteriorated and of social pressures fueled by a rapidly increasing population and growing unemployment and underemployment. Benin's growth prospects will continue to depend heavily on the development of the agricultural, commercial, and regional trade sectors. The diversification of agricultural production, the development of small-scale manufacturing, and the maintenance of Benin's comparative advantage in regional re-export trade will be critical to maintaining an adequate level of economic activity. Cotton output is expected to reach an upper limit determined by environmental concerns and availability of arable land. Diversification toward other crops thus will be of vital importance to the growth of the agricultural sector. The expansion of trade services will require the opening up of a supportive infrastructure and the active promotion of the private sector.

The attainment of the growth objectives will also necessitate an increase in the rate and quality of investment. It is projected that the investment/GDP ratio will rise significantly over the medium term, reflecting, in part, a higher level of capital formation in the private sector. While the domestic savings ratio is also projected to rise over the medium term, as macroeconomic conditions continue to improve, Benin will nevertheless need to continue to rely heavily on foreign savings to finance its investment outlays.

2. Financial policies

Financial policies will aim at reducing existing imbalances and minimizing the rate of inflation. In this context, fiscal policies will be geared toward meeting the urgent need for augmenting public savings to support a higher level of domestic investment and improving the Government's overall financial position. Measures will accordingly be taken to streamline and broaden the tax base, and to rationalize public expenditures. On this basis, the overall budget deficit (commitment basis, excluding grants) would decline from 9.7 percent of GDP in 1992 to 6.7 percent in 1993 and 5.0 percent in 1995. Concurrently, the narrowly defined primary budget balance would improve from the equivalent of 1.3 percent of GDP to 3.1 percent. This adjustment will sharply reduce the need for exceptional financing, including debt relief, from CFAF 73.3 billion in 1992 to CFAF 33.5 billion in 1993 and CFAF 22 billion in 1995.

Current policies to enlarge the tax base, rationalize the tax system, and improve tax administration will be continued. Reforms and measures to be undertaken by each revenue agency are to be incorporated into an action program to be implemented by the agency during the program period. In the Tax Directorate, measures already taken, or soon to be adopted, include:

the extension of the VAT to new products and services, including telephones and telecommunications, and cement (by December 1992); the introduction of a new tax on company cars (1992 Finance Law); a requirement that public enterprises pay at least 40 percent of their profits as a dividend to the Government (Finance Law 1992); a reform of the current regime of exemptions for externally financed project-related imports and for government purchases, through the introduction of tax credits based on the value of purchases (by December 1992); the introduction next year of a universal professional/business license scheme (taxe professionnelle unique), intended to supplement the current partial withholding schemes for the taxation of the informal sector; and the establishment of urban real estate registries (ongoing). The effect of these measures is to be reinforced by a further strengthening of tax administration involving increased tax audits and fiscal controls, improved data bases in coordination with the Customs Directorate, and the strengthening of collection procedures.

Regarding the Customs Directorate, the action program focuses on the reform of the external tariff and the strengthening of tax administration. Existing duties and charges, except for the VAT and the Economic Community of West African States (ECOWAS) community levy, will be consolidated into a single import tariff. The new tariff schedule, with a maximum of four rates, will provide for transitional arrangements for the protection of domestic industry for a three-year period; it will provide greater incentives for production and export diversification. Pre-import inspections by a reputable international company have been in effect since 1991. Like the Tax Directorate, the Customs Directorate will subject all government and public sector imports to regular duties administered through a customs duty credit arrangement. Efforts to improve customs administration will aim at instituting effective controls over entrepôt and other special customs regimes operations, and at strengthening customs data bases and staff training. With these policies, the revenue/GDP ratio is projected to increase from 11.5 percent in 1991 to about 12.4 percent during 1993-95.

In the area of public expenditures, the major policy objectives will remain: (a) the containment of overall spending growth within limits that would permit a significant improvement in the Government's overall financial position; (b) a reordering of expenditure priorities, by reducing the share of personnel expenses, increasing that of materials and supplies, particularly to long-neglected social services such as health and education, and substantially increasing the Government's contribution to the investment budget; (c) an improvement in the quality of public investment; and (d) a strengthening of budget procedures.

In line with the first two of these objectives, the Government intends to expedite the implementation of the program of departures from the civil service as indicated in the attached memorandum. During the period September-December 1992, another 1,122 separations are envisaged including 900 staff from the Ministry of Rural Development, so as to raise total number of departures to 3,300 in 1992, equivalent to 9 percent of total civil service employment. The objective for 1993 is further to reduce the number of permanent civil servants by 2,000 as originally envisaged in the program, to be followed by an additional 2,000 departures in 1994-95. The departures program will be effected in the context of audits of government ministries designed to ascertain manpower requirements and facilitate a civil service reorganization. At the same time, the Government will implement policies to limit outlays on scholarships and to eliminate waste under the pension scheme. With the delay experienced in implementing the departures program during 1991-92, expenditures on wages, salaries, pensions, and scholarships did not decline as programmed; this slippage is expected to be recouped during 1993, when such outlays are projected to decline by 4.3 percent. Taken together, these policies should cause the share of wages and salaries in current expenditure to decline from about 75 percent in 1992 to 66 percent in 1995. A sizable increase in expenditure during 1992-94 relates to the emergency social program, which includes indemnities paid to departing civil servants and outlays on the social dimensions of adjustment; this program is funded entirely from external assistance.

Investment expenditures are projected to rise steadily, in line with expected external assistance and increased counterpart funding from the domestic budget.

An inventory of domestic arrears was drawn up in September 1992. On that date, total domestic arrears, excluding overdue debt owed to the BCEAO, amounted to CFAF 31.1 billion, of which CFAF 15.6 billion represented salary arrears. In the coming months the Government will convert these claims into non-interest-bearing treasury certificates that will be redeemed over a six-year period beginning in 1993. In addition, the Government is expected to reduce substantially its indebtedness to the Central Bank, with advances falling to the statutory ceiling in 1992 and well below the ceiling thereafter.

The successful implementation of the fiscal program would permit an increasing share of domestic credit growth to go to the nongovernment sector while allowing for a significant improvement in the net foreign assets position of the banking system. The program provides for an increase in domestic credit to the private sector of 12 percent in 1992 and 5.1 percent in 1993 relative to the stock of broad money at the beginning of the year. After the sharp increase in velocity connected with the collapse of the banking system, velocity is projected to decline in 1992-93 toward its historical level.

The Government is determined to accelerate the process of recovering loans owed to the liquidated banks. To this end, legal actions against the main debtors of these banks are being stepped up, while the effectiveness of the court system has been enhanced by the institution, in May 1992, of two new judicial posts in charge of loan recovery. The recovery unit is expected to raise collections to a cumulative total of CFAF 10 billion by end-December 1992 (including sale of assets) and of CFAF 12 billion by end-June 1993. These targets will constitute structural benchmarks. With the proceeds of loan recovery, it is expected that the recovery unit would undertake additional reimbursements of depositors during the program period.

Finally, financial intermediation is also expected to be strengthened by the establishment of a branch of a large international bank in Cotonou. The programs for the rehabilitation of the rural credit network and of the postal checking and saving scheme have been elaborated with external donors and their implementation is to proceed at an accelerated pace. In addition, under the auspices of the West African Monetary Union, the authorities intend to enforce strictly the new guidelines relating to banking supervision, and to ensure that interest rates are maintained positive in real terms.

3. External sector policies and the medium-term balance of payments outlook

In reviewing medium-term prospects, the authorities reiterated their policy of maintaining a stable exchange rate regime and an exchange system virtually free of restrictions as an anchor for their adjustment policies. While noting their commitment to a liberal exchange system, the authorities expressed their intention, in a regional context, to maintain Article XIV status, in view of the fragility of the economy. The authorities acknowledged that the appreciation of the CFA franc in real effective terms over recent years, along with the concurrent deterioration in the terms of trade, had adversely affected Benin's competitive position. In this context, the discussions focused on measures to improve external competitiveness, to reduce domestic costs, and to promote production and export diversification. The authorities stressed that they have already adopted several measures to reduce domestic costs and improve production efficiency. These measures included the restructuring of the cotton sector and of public enterprises, as well as a lessening of economic regulations and reductions of corporate income tax rates. A tight rein was being kept on wage and salary awards.

Nevertheless, the authorities recognize the need to undertake additional measures to strengthen Benin's competitiveness. The planned reform of the external tariff and the continuing restructuring of the public enterprise sector are expected to assist importantly in this effort. Furthermore, a study of competitiveness and the cost structure of Benin's economy is to be completed by end-March 1993 with World Bank assistance; the conclusions of this study will form the basis of an action plan to improve the country's competitive position. This will also be facilitated by sector-specific reform programs in agriculture, industry, transport, and energy.

With the implementation of these policies, Benin's medium-term prospects should improve noticeably and ensure that a more viable external position will be within reach in the not too distant future. The volume of cotton exports, which rose sharply in 1992, is expected to remain stable during 1993, owing to capacity constraints at the ginning level; it is projected to rise further during 1994-95 as ginning capacity expands.

Petroleum production is projected to decline during 1992-94, although the potential exists for stepped-up output with more investment. After the sharp decline of 1991 and 1992 cotton export prices are projected to recover moderately after 1993. On this basis, the external current account is projected to narrow from 8.6 percent of GDP in 1992 to 6.1 percent in 1995 (Table 6), while the debt service ratio would decline from over 37 percent in 1992 to about 16 percent in 1995 (Table 7). 1/

On the basis of existing commitments, the capital account is projected to improve gradually during 1993-95 as a result of increased grants and loans and reduced amortization payments. The need for exceptional financing would decline, though residual financing would remain during those three years. To cover these gaps, the authorities have requested financial assistance from external donors. The financing gap for 1992 is fully covered by current commitments and debt relief obtained in December 1991 from the Paris Club and other bilateral creditors. The Paris Club agreement covers maturities up to July 1993, provided an arrangement with the Fund is in effect. 2/ For 1993, the bulk of the required financing is already committed; it is expected that the residual gap would be filled by a combination of additional commitments and possible debt rescheduling. If the program is fully implemented, Benin is not expected to have difficulty in closing the reduced financing gaps estimated for 1994-95, with a combination of debt relief and bilateral and multilateral aid. Creditors have stated in the Agreed Minutes of the December 1991 Paris Club meeting that they agree in principle to hold a meeting to consider the matter of Benin's stock of external debt by end-1995, if Benin continues to implement rigorously the previously rescheduling agreement and continues to pursue adjustment policies supported by an arrangement with the Fund. For the period beyond 1995, a continuation of the adjustment effort should further contain the need for exceptional financing. With possible additional debt relief, the required financing would be in the range of CFAF 5-8 billion, which is well within the range of external financial assistance of which Benin could benefit if adjustment policies are sustained.

The program's medium-term projections are sensitive to the assumptions on developments in the export sector. Assuming that cotton export prices are 10 percent lower than in the baseline scenario, the projections indicate that the external current account deficit would increase by about one third of a percentage point of GDP above the baseline outcome, with the financing gap widening on average by about CFAF 4 billion a year (Table 8). Assuming

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1/ The high debt service ratio in 1992 is connected with the maturity of a large loan to develop the oil sector, which has been entirely rescheduled at concessional terms.

2/ In December 1991 Benin was the first country to obtain Paris Club members' debt relief on enhanced concessional terms, corresponding to a reduction of debt service on the consolidated amounts of 50 percent in net present value terms.

Table 6. Benin: Balance of Payments, 1989-95

	1989	1990 Est.	1991 Prog.	1991 Est.	1992	1993	1994	1995
					Projections			
			(In billions of CFA francs)					
Trade balance	-31.5	-38.3	-60.1	-43.3	-46.4	-50.4	-48.4	-48.1
Exports, f.o.b.	69.5	78.2	79.0	92.7	99.7	106.3	119.4	131.3
Domestic exports	29.5	32.1	33.9	37.1	38.8	40.5	48.5	55.2
Non-oil	22.8	25.0	28.0	30.9	33.3	36.7	45.3	53.0
Oil	6.6	7.1	5.9	6.3	5.5	3.8	3.1	2.2
Re-exports	40.0	46.2	45.1	55.6	61.0	65.8	71.0	76.0
Imports, f.o.b.	-101.0	-116.5	-139.1	-136.1	-146.1	-156.7	-167.9	-179.4
Domestic imports	-71.0	-81.0	-105.3	-91.6	-99.2	-106.1	-113.3	-120.9
Imports for re-export	-30.0	-35.5	-33.8	-44.5	-46.9	-50.6	-54.6	-58.5
Services (net)	-19.8	-16.2	-21.0	-13.3	-23.7	-20.6	-20.4	-18.9
Nonfactor services	-7.6	-5.6	-7.4	-4.6	-6.4	-6.5	-5.9	-3.4
Factor services	-12.2	-10.6	-13.7	-8.7	-17.3	-14.1	-14.4	-15.5
Of which: interest due	(12.2)	(10.6)	(14.2)	(-8.7)	(-17.3)	(-14.1)	(-14.4)	(-15.5)
Unrequited private transfers (net)	21.0	19.0	20.0	19.8	21.0	22.2	23.5	24.5
Current account balance (before grants)	-30.4	-35.4	-61.1	-36.8	-49.1	-48.8	-45.3	-42.5
Capital movements (net)	18.5	19.0	28.6	40.4	4.2	41.0	41.5	46.1
Official grants 1/	34.3	16.0	10.8	18.3	20.3	23.5	23.8	26.0
Medium- and long-term capital	-10.6	6.4	10.2	13.3	-13.9	12.0	14.0	16.3
Disbursements 2/	19.6	17.5	16.8	22.8	19.5	26.2	25.4	28.6
Amortization due 3/	-30.2	-11.1	-6.6	-9.5	-33.4	-14.2	-11.3	-12.3
Long-term private capital	0.4	0.5	1.6	8.0	2.3	5.4	3.7	3.7
Short-term capital and errors and omissions	-5.6	-3.9	--	0.8	-4.5	--	--	--
Overall balance	-11.9	-16.5	-32.5	3.6	-44.9	-7.8	-3.7	3.6
Financing	11.9	16.5	32.5	-3.6	44.9	7.8	3.7	-3.6
Change in net foreign assets	-33.1	-29.9	-10.5	-35.7	-28.4	-25.7	-22.8	-25.6
Central bank	-35.5	-26.0	-8.5	-28.2	-30.5	-25.7	-22.8	-25.6
Deposit money banks	2.4	-3.9	-2.0	-7.5	2.1	--	--	--
Change in external arrears	-80.5	14.4	--	-14.4	--	--	--	--
Principal	-66.4	9.5	--	-9.5	--	--	--	--
Interest	-14.1	4.9	--	-5.0	--	--	--	--
Exceptional financing	125.5	32.0	59.8	46.5	73.3	33.5	26.5	22.0
SAL	6.7	6.2	6.7	5.2	4.0	4.2	1.5	--
SAF	2.6	--	3.3	3.7	2.9	5.8	6.3	3.1
Special social program	...	--	0.9	0.8	0.9	...	...	...
Bilateral and multilateral assistance (SPA)	16.8	19.9	21.5	12.0	27.0	11.8	2.0	--
Debt relief	99.4	5.9	27.5	26.2	39.0	1.8	--	--
Debt relief already obtained	99.4	5.9	--	26.2	39.0	1.8	--	--
Remaining financing gap	...	--	--	--	-0.6	9.9	16.8	18.9
Of which: possible debt relief	--	--	27.6	--	--	--	--	--
<u>Memorandum items</u>:				(In percent of GDP)				
Current account deficit (excluding official grants)	-6.3	-7.1	-11.2	-6.8	-8.6	-8.0	-6.9	-6.1
Overall deficit	-2.5	-3.3	-5.9	0.7	-7.8	-1.3	-0.6	0.5
Exchange rate, period average CFAF/US$	319	272.5	282.1	263	257	257	257	257

Sources: Data provided by the Beninese authorities; and staff estimates and projections.

1/ Excluding official grants under the Special Program of Assistance (SPA). For 1989, includes also debt cancellation.

2/ From PIP, includes disbursements to Central Government, local government and public enterprises, excluding SAF.

3/ Includes amortization of debt of public enterprises. Starting in 1990, net of cancellation.

Table 7. Benin: External Debt Service and Debt Service, 1990-2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
							Projections				
						(In billions of CFA francs)					
Interests	10.6	8.7	17.3	14.1	14.4	15.5	16.0	16.4	16.5	16.6	16.6
Multilaterals (excl. IMF)	3.0	2.0	2.4	3.4	3.9	4.6	5.0	5.3	5.6	6.0	6.2
IMF	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Paris Club (Medium-term)	4.8	3.3	10.8	5.5	5.6	5.8	5.7	5.6	5.4	5.1	4.9
Other bilaterals	2.5	2.9	3.1	3.3	3.6	3.9	4.1	4.4	4.6	4.8	5.0
Short term debt	--	0.4	0.8	1.6	1.0	0.9	0.8	0.6	0.5	0.3	0.2
Principal	11.1	9.5	33.4	14.2	11.3	12.4	12.7	16.6	17.4	16.0	16.8
Multilaterals (excl. IMF)	4.0	3.1	3.7	4.1	4.6	4.9	5.2	5.7	5.5	4.7	3.7
IMF	0.6	--	--	--	0.2	0.5	0.5	0.5	1.3	2.3	3.3
Paris Club (Medium-Term)	1.4	2.3	25.7	1.4	1.2	1.2	1.3	4.5	5.2	5.7	6.3
Other bilaterals	5.2	2.8	2.6	3.1	3.3	3.6	3.6	3.8	3.3	1.3	1.5
Short term debt	--	1.3	1.4	5.7	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Total debt service due	21.8	18.1	50.7	28.3	25.7	27.8	28.7	32.9	33.9	32.6	33.5
Interest	10.6	8.7	17.3	14.1	14.4	15.5	16.0	16.4	16.5	16.6	16.6
Principal	11.1	9.5	33.4	14.2	11.3	12.4	12.7	16.6	17.4	16.0	16.8
Rescheduling	5.9	26.2	39.0	1.8	--	--	--	--	--	--	--
Debt outstanding (medium-and long-term)	247.3	164.2	288.7	284.6	308.5	330.4	349.8	367.2	383.6	402.5	426.5
					(In percent of exports of goods and non factor services)						
Total debt service due	19.8	14.3	37.6	19.6	16.1	15.7	15.5	16.5	15.8	14.1	13.3
Interests	9.7	6.8	12.8	9.8	9.0	8.8	8.6	8.2	7.7	7.2	6.6
Principal	10.1	7.5	24.7	9.9	7.1	6.9	6.8	8.3	8.1	6.9	6.7
Memorandum items:											
Medium-and long-term debt outstanding (in % of GDP)	49.2	49.2	50.5	46.5	47.1	47.1	45.5	45.0	44.4	43.9	43.9
External arrears (in billions of CFA francs)	14.4	--	--	--	--	--	--	--	--	--	--
Interests	6.0	--	--	--	--	--	--	--	--	--	--
Principal	4.9	--	--	--	--	--	--	--	--	--	--

Table 8. Benin: Medium-Term Outlook for the Balance of Payments, 1991-97

(In billions of CFA francs)

	1991	1992	1993	1994	1995	1996	1997
			Baseline Scenario				
Cotton export price (in US$ per lb) 1/	0.70	0.63	0.69	0.76	0.83	0.87	0.90
Cotton export volume (thousands of tons) 1/	59.21	74.00	74.00	80.51	82.54	78.80	80.38
Cotton export value (billions of CFA francs) 1/	26.16	27.23	29.12	35.01	39.30	39.08	41.49
Current account deficit (excluding official transfers)							
In billions of CFA francs	-36.78	-49.08	-48.79	-45.26	-42.25	-48.34	-49.58
As percent of GDP	-6.85	-8.58	-7.97	-6.91	-6.06	-6.28	-6.08
Overall balance (CFAF billions)	-3.65	-44.89	-7.79	-3.74	3.60	0.94	3.40
Reserves, end of period							
In millions of U.S. dollars	191.89	320.80	420.80	509.52	609.13	644.92	658.15
In billions of CFA francs	49.70	80.20	105.90	128.70	154.30	163.50	166.90
In weeks of imports, c.i.f.	16.14	24.26	29.88	33.88	38.02	37.71	36.13
			Alternative Scenario 2/				
Cotton export price (in US$ per lb) 1/	0.70	0.63	0.62	0.69	0.75	0.78	0.81
Cotton export volume (thousands of tons) 1/	59.21	74.00	74.00	80.51	82.54	78.80	80.38
Cotton export value (billions of CFA francs) 1/	26.16	27.23	26.21	31.51	35.37	35.17	37.34
Current account deficit (excluding official transfers)							
In billions of CFA francs	-38.78	-49.08	-51.96	-49.10	-46.84	-52.70	-54.21
As percent of GDP	-6.85	-8.58	-8.49	-7.50	-6.68	-6.85	-6.65
Overall balance (billions of CFAF)	-3.65	-44.89	-10.99	-7.52	-0.80	-13.35	-1.30
Reserves, end of period;							
In millions of U.S. dollars	191.89	320.80	399.61	473.54	556.03	575.10	570.04
In billions of CFA francs	49.70	80.20	102.70	121.70	142.90	147.80	146.50
In weeks of imports, c.i.f.	16.14	24.26	28.98	32.04	35.21	34.09	31.71

Source: Beninese authorities; and staff estimates.

1/ For ginned cotton.
2/ The alternative scenario assumes a 10 percent decline in the cotton export price in 1993.

that the baseline medium-term projections materialize, Benin should not have difficulty in meeting its obligations to the Fund in a timely manner. Debt service due to the Fund is projected to remain in a range of 0.4-0.9 percent of official reserves up to 1996, and to rise to 4.3 percent by the year 2000; as a ratio to total debt service due, obligations to the Fund would rise from 1.2 percent in 1992 to 3.6 percent in 1995 and to 11.9 percent by the year 2000. It would remain negligible in terms of Benin's export earnings (Table 9).

4. Structural policies and social aspects

The authorities intend to pursue vigorously the implementation of structural reforms, which will center on the reduction of the size and role of the public sector, the deregulation of economic activity, and the achievement of a broad-based increase in economic efficiency and competitiveness.

Regarding the reform of the public enterprise sector, the objective will continue to be a further reduction in the number of enterprises in the public sector, together with improvements in the management of those that are to remain in the public domain. As indicated in the PFP, the number of enterprises in the public sector is to fall from 25 at end- June 1992 to 15 by end-June 1993. In addition, the process of liquidating dissolved enterprises will be speeded up. Furthermore, the Government's divestiture program will be continued with the privatization of some of the largest enterprises, including the Savé-Sugar Company and the Onigbolo Cement Company--for which bids are to be issued by mid-1993; the vegetable oil refineries are scheduled to be sold to the private sector by mid-1993. Meanwhile, the Government has introduced new legislation governing the operations of the companies remaining in the public sector and it will set up a management information system for monitoring these companies' performance.

The deregulation of economic activity will also be continued, by further streamlining business regulation and opening up areas previously monopolized by the parastatals. The insurance sector in particular will be liberalized, and the capital of the state insurance company (SONAR) opened up to private participation before end-1992. Similarly, land and maritime transport activity will be opened further to private sector participation, with the state maritime transport company soon to divest itself of its commercial activities.

The Government is anxious to ensure that the implementation of the adjustment program does not lead to a deterioration in social conditions, particularly for the poor and other vulnerable social groups. The authorities' strategy therefore incorporates short-term measures to deal with social emergencies, including payments of indemnities to laid-off civil servants and employees of public enterprises, an urgent program to rehabilitate key social infrastructure, and training schemes for unemployed graduates. For the long term, the Government's strategy envisages measures to increase the participation of affected groups in the design and execution

Table 9. Benin: Indicators of Credit Provided by the Fund, 1989-2000 1/

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
				Projections								
Outstanding Fund credit												
In millions of SDRs	7.8	15.7	15.7	23.5	39.2	54.2	60.8	59.5	56.4	50.9	42.9	32.4
In billions of CFA francs	3.0	5.7	5.8	9.0	15.2	21.6	24.3	23.8	22.5	20.3	17.1	13.0
In percent of quota	24.9	50.1	50.1	75.1	125.1	173.1	194.1	190.1	180.1	162.6	137.1	103.6
In percent of GDP	0.6	1.1	1.1	1.6	2.5	3.3	3.5	3.3	3.0	2.6	2.1	1.5
In percent of exports of goods and nonfactor services	5.2	9.1	7.8	11.2	17.5	23.2	25.0	23.5	22.1	19.1	15.4	11.1
Debt service due to the Fund												
In millions of SDRs	0.1	2.3	0.6	0.7	0.8	1.5	2.2	2.2	4.1	6.4	8.8	11.3
In billions of CFA francs	--	0.8	0.2	0.3	0.3	0.6	0.9	0.9	1.6	2.5	3.5	4.5
In percent of quota	0.3	7.3	1.9	2.3	2.6	4.8	7.0	7.0	13.0	20.4	28.3	36.1
In percent of exports of goods and nonfactor services	0.1	1.3	0.3	0.4	0.4	0.6	0.9	0.9	1.6	2.4	3.2	3.9
In percent of debt service due	0.1	3.9	0.9	0.6	1.2	2.6	3.6	3.4	6.1	6.9	9.7	11.9
In percent of gross official reserves	3.8	4.0	0.4	0.4	0.4	0.7	0.9	0.8	1.8	2.7	3.5	4.3

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

1/ Includes disbursement and repayments, and interest payments under the proposed ESAF arrangement.

of the emergency social program, to create employment, and to generate sustainable income for vulnerable groups; the strategy also will rely on more systematic planning and monitoring of programs aimed at addressing poverty issues.

6. Quantitative and structural benchmarks

The proposed program contains both quantitative performance criteria and structural benchmarks for end-March 1993, as well as benchmarks throughout the period covered by the first annual arrangement (Appendix II, Table 1). The program also provides for a midterm review to be completed by end-May 1993.

IV. Staff Appraisal

The establishment of a democratic political system in 1991 has enabled Benin to resume its adjustment effort with added vigor and greater public support. Consequently, considerable progress has been made toward attainment of the macroeconomic objectives, and in implementing the structural reforms, envisaged under the SAF-supported program, approved in June 1989. In the climate of confidence resulting from improved public finances and restructured banking system, the economy picked up in 1990 and 1991, the overall balance of payments registered large surpluses, while price inflation was contained. The institutional framework was substantially restructured with a comprehensive reform of the tax system, the rebuilding of the banking system, and progress in the restructuring of public enterprises.

The implementation of the civil service reform, after a pause in 1991, accelerated in 1992, and the delays encountered in the civil service departures program are now being overcome with much progress realized during 1992. With regard to bank restructuring, the recovery of loans owed to the liquidated state banks has been excessively slow in the past, and the staff therefore welcomes recent actions directed at speeding up collection from the main debtors. This progress notwithstanding, Benin's economy is still little diversified, its saving capacity remains modest, the domestic and external debt is sizable, and financial imbalances continue to be such as to require considerable external assistance.

To address these weaknesses, the Government has elaborated a medium-term strategy and adopted policies aimed at reducing financial imbalances further, accelerating the process of diversification of the economy, and reducing the scope of the public enterprise sector in an effort to bolster efficiency. In the area of public finance, continued progress in reforming the tax system and further improvements in tax administration are critical to the needed enhancement of public sector savings and to raising the very small contribution of the Government to the investment budget. Equally important is the accelerated implementation of the civil service reform, including the continuation of the departures program, so as to rationalize expenditure and expand the resources available for essential infrastructure and social services. Fiscal reforms should be monitored closely and any slippages corrected without delay. This will ensure that enough resources are made available to the rest of the economy and that the private sector will have adequate access to bank credit to expand and diversify.

The acceleration of the growth rate of the economy over the medium term will critically depend on the timely implementation of structural reforms, particularly of those measures that can yield significant gains in competitiveness. The continued deregulation of economic activity and the reduction in the size and role of the public sector should help in enhancing economic efficiency and in promoting the necessary diversification of agriculture, small-scale manufacturing, and services. Further actions are needed to contain costs, however, so as to make room for a broader and dynamic tradable goods sector, and permit in particular the strengthening and diversification of exports. The staff therefore welcomes the proposed study of the cost structure and competitiveness of the economy and urges that any measures required to improve the external position be implemented as soon as possible.

With the reinforcement of macroeconomic and structural policies as envisaged, Benin's external prospects should improve measurably over the medium term. In addition, if these policies are implemented resolutely and consistently, the staff believes that external financing should be forthcoming on the desirable scale to support Benin's structural adjustment effort. It will be essential, therefore, that the authorities carry out all aspects of the program in a timely manner. The staff analysis indicates that Benin's future financial obligations to the Fund will remain low in terms of the main relevant indicators and should be discharged without difficulty. The authorities are fully aware that the resumption of sustainable growth and the restoration of external viability will require the consistent implementation of their medium-term strategy. They have taken important measures which represent a deepening of the adjustment effort and are committed to maintaining and furthering progress in 1992-93 and thereafter.

The staff considers that the proposed policies are appropriate and adequate to attain the program objectives, and that the program therefore deserves the support of the Fund and of the international donor community.

It is recommended that the next Article IV consultation with Benin be held on the standard 12-month cycle.

V. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board.

1. The Government of Benin has requested a three-year structural adjustment arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.

2. The Fund notes the policy framework paper for Benin set forth in EBD/92/284.

3. The Fund approves the arrangements set forth in EBS/92/189.

BENIN

Three-Year and First Annual Arrangements Under the Enhanced Structural Adjustment Facility

Attached hereto is a letter dated November 9, 1992, from the Minister of Finance of Benin, requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth

(i) the objectives and policies of the program to be supported by the three-year arrangement;

and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. (a) For a period of three years from ________, 1992, Benin will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 46.95 million. Of this amount, the equivalent of SDR 7.00 million shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 39.95 million shall be provided from the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

(b) The amount of each annual arrangement will be the equivalent of SDR 15.65 million for the first annual arrangement; the equivalent of SDR 15.65 million for the second annual arrangement; the equivalent of SDR 15.65 million for the third arrangement.

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 7.825 million, will be available on December 30, 1992 at the request of Benin and

(ii) the second loan, in an amount equivalent to SDR 7.825 million, will be available on May 30, 1993 at the request of Benin subject to paragraph 2 below.

2. Benin will not request disbursement of the second loan specified in paragraph 1(c)(ii) above

(a) if the Managing Director finds that the data at the end of March 1993 indicate that

(i) the limit on domestic credit of the banking system, or

(ii) the limit on net claims on the Government by the banking system, or

(iii) the intention not to accumulate external payments arrears, or

(iv) the target of the reduction of existing domestic payments arrears of the Government,

(v) the limit on the contracting or guaranteeing by the Government of nonconcessional loans of maturities of 1-12 years,

(vi) the limit on short-term borrowing with less than one year's maturity, or

referred to in paragraphs 23 of the attached letter was not observed; or

(b) if Benin

(i) has imposed or intensified restrictions on payments and transfers for current international transactions, or

(ii) has introduced or modified multiple currency practices, or

(iii) has concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) has imposed or intensified import restrictions for balance of payments reasons; or

(c) until the Fund has determined that the midterm review of Benin's program referred to in paragraph 25 of the attached letter has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(c)(ii) above may be made available only after consultation has taken place between the Fund and Benin, and understandings have been reached regarding the circumstances in which Benin may request that second loan.

3. Before approving the second annual arrangement, the Fund will appraised the progress of Benin in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators referred to in paragraph 23 of the attached letter and in the Tables annexed thereto;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 26 of the attached letter, Benin will provide the Fund with such information as the Fund requests in connection with the progress of Benin in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 27 of the attached letter, during the period of the first annual arrangement, Benin will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Benin has outstanding financial obligations to the Fund arising from loans under that arrangement, Benin will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Benin's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Benin or of representatives of Benin to the Fund.

Cotonou, November 9, 1992

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. Since early 1989, the Government of Benin has been implementing a structural adjustment program involving a fundamental restructuring of the Beninese economy which, after a long period of inappropriate policies, was in state of near collapse. Adjustment measures initiated in 1989, and continued through 1990, until the installation of the transitional Government, met with limited success, owing to a groundswell of political demands and social unrest which contributed to the fundamental reform of the political system. Substantial progress was made during 1991 and in early 1992 moving towards the initial program objectives. Nevertheless, the Government continues to be aware of the country's fragile economic and financial situation, and of the need to accelerate the implementation of structural reforms, while maintaining prudent macroeconomic policies. Within this framework, the Government of Benin requests a three-year arrangement under the enhanced structural adjustment facility, in an amount equivalent to SDR 46.95 million, (150 percent of Benin's quota), and the first annual arrangement thereunder in an amount equivalent to SDR 15.65 million. The Beninese authorities have prepared, in collaboration with the staff of the Fund and of the World Bank, a policy framework paper for the period 1992-95, which describes the macroeconomic and structural measures to be implemented during this period. This document, which was transmitted to you separately, will serve as a basis for negotiating assistance from creditors and external donors.

I. Implementation of the Program during 1991 and the First Half of 1992

2. With the return to social stability, and increased internal and external confidence, the economy rebounded during 1991 and the first half of 1992. Real GDP, which had significantly declined in 1989, is estimated to have increased by 3.7 percent in 1990 and by 4.7 percent in 1991. Current estimates indicate a real growth rate of 4 percent in 1992 which would imply an average annual growth rate of 4.1 percent during 1990-92, compared to an average growth rate of less than 1 percent recorded during 1985-89. Agricultural production increased by 10 percent during 1991, largely on account of favorable weather conditions; agricultural output was boosted, in

particular, by the surge in cotton production, which increased by 40 percent. Port activity also rose substantially, growing at an estimated 35 percent in 1991.

3. After two difficult years, 1989-1990, Benin's financial situation improved significantly during 1991. The overall budget deficit was reduced from 10 percent of GDP in 1990, to 7.2 percent in 1991, compared to the 1991 program target of 9.8 percent. The primary balance, which excludes interest charges, expenditures related to the emergency social program, and investment outlays financed by external sources, recorded a surplus of CFAF 2.7 billion, compared to the equilibrium originally targeted under the 1991 program. This favorable outturn largely reflected the greater-than-projected increase in government revenue, which rose to CFAF 61.5 billion compared to a program estimate of CFAF 57.8 billion. Revenue performance in 1991 was substantially boosted by the excellent yield provided by the value-added tax introduced that year, and by the steady improvements in the collection of tax arrears. Despite these improvements, the revenue/GDP ratio, at 11.4 percent, remained low, reflecting the continuing need to improve tax administration and to intensify the campaign against fiscal fraud in the framework of current reform programs. Primary expenditures exceeded the program target by about CFAF 1 billion due to the delay in implementing the program of departures from the civil service.

4. Regarding monetary and credit developments, net domestic bank credit to the Government, and net domestic assets of the banking system remained within the quantitative benchmarks set under the program for 1991 and the first half of 1992. In addition, the deposits of the new banks increased much faster than projected, reflecting the growing confidence in the banking system. The overall balance of payments situation also recorded a greater than projected improvement owing to a better-than-projected outturn on the current account and a higher-than-programmed level of net capital inflows. The current account deficit rose to 36.8 billion (6.8 percent of GDP), compared to a program projection of CFAF 61 billion (11.2 percent of GDP), reflecting the strong growth of cotton exports (18 percent in volume terms), and the surge in re-export activity. Consequently, the overall balance of payments position was in equilibrium in 1991, compared to a projected overall deficit of CFAF 32.5 billion under the program.

5. As indicated in the updated PFP, substantial progress has been made in implementing structural reforms. In the area of public finance, the reforms undertaken resulted in a significant simplification of the tax system through the introduction of a value added tax; important measures have been taken to widen the tax base, such as the introduction of a 3 percent withholding tax at the customs level, tax withholding at the wholesale level, and improvement in tax administration. A reform of the civil service was started, including a program of departures from the civil service. Substantial progress was also made in restructuring the banking system, with the establishment of four new banks. Despite some delays which will have to be corrected in 1992-93, a comprehensive restructuring of the public enterprise sector through liquidation, privatization or rehabilitation is

being implemented. Draft legislation providing for the abolition of the remaining import licensing requirements is currently awaiting Parliamentary approval.

II. Medium-Term Economic Objectives and Strategy

6. Despite the economic progress made to date, particularly during 1991,several structural obstacles remain as major impediments to growth, while the economic and financial situation remains fragile, as evidenced by the continuing internal and external imbalances. While the rate of growth has increased significantly, it remained lower than the growth rate of the active population until 1990, and was, thus, unable to allow for the reduction in unemployment and underemployment. At the same time, the country's financing requirements for investment and rehabilitation, exceed the economy's domestic savings capacity. The Government is committed to continue addressing these problems in an expeditious and aggressive manner during the next three years.

7. The Government's medium-term (1992-95) policy objectives and strategy together with the macroeconomic and structural policies to be followed to attain those objectives are outlined in the updated policy framework paper. The policy objectives are (a) to accelerate the rate of economic growth to an average annual rate of 4 percent during 1992-95; (b) limit the average annual increase in domestic prices to about 3 percent; (c) to reduce progressively fiscal imbalances,with the overall budget deficit declining from 9.7 percent of GDP in 1992 to 5.0 percent in 1995; (d) to reduce the external current account deficit, from 8.4 percent in 1992 to 6.0 percent in 1995; and (e) to protect vulnerable groups adversely affected by the economy's restructuring. To achieve these objectives, Government intends to continue to pursue its strategy emphasizing the reduction in the role and size of the public sector and the maintenance of a prudent stance of macro-economic policies. Consequently, the program for 1992-95 will continue to give priority to measures leading to: the acceleration of structural adjustment policies; a substantial improvement in the Government's financial position; the consolidation of the financial system; further deregulation of economic activity; and comprehensive sectoral programs designed to increase and diversify production and exports, and to improve the economy's competitiveness. The main sources of economic growth will continue to be: agriculture, owing to the current policies aimed at diversification; services, as a result of new possibilities opened up by new supportive infrastructure; and small-scale industry, benefitting from improvements in energy supplies and research for new openings.

III. The Program for 1992-93

8. The main objectives of the Government's macroeconomic and structural policies for the 1992-1993 period are: (a) to sustain the growth rate at 4 percent; (b) increase domestic and public savings; (c) to contain the rate of inflation, as measured by the GDP deflator, at 3 percent and (d) limit the external current account deficit (excluding official grants) to

8.4 percent of GDP in 1992 and to 7.8 percent in 1993. The achievement of these objectives will require the reinforcement of fiscal and monetary policies and the timely implementation of structural reforms.

9. The program aims at limiting the overall government budget deficit (commitment basis) to 9.7 percent in 1992, and reducing it to 6.7 percent in 1993. At the same time, the program targets an improvement in the primary budget balance leading to a surplus of CFAF 7.2 billion, equivalent to 1.3 percent of GDP in 1992, and of CFAF 13.4 billion, equivalent to 2.2 percent in 1993. Total revenue is projected to increase by 12.8 percent in 1992 and 10 percent in 1993, reflecting the continued economic recovery, the impact of continued improvements in tax administration and a substantial increase in imports.

10. Taxes collected by the Tax Directorate are projected to increase by 30 percent in 1992 and by 12.5 percent in 1993. The projected increases during 1992-93 reflect, in part, the full year impact of measures introduced in fiscal 1991, including the introduction of the value-added tax and the imposition of a presumptive tax on retailers, and the impact of new revenue measures introduced in 1992. New measures introduced with the 1992-1993 budgets include: (a) the extension of the value added tax expected before end- 1992, to services, such as telephone and telecommunications, and to some domestic production not currently covered by the tax, such as cement; (b) a new tax on company cars; (c) new incentives (discounts) for the liquidation of tax arrears; (d) the new requirement under the 1992 finance law, whereby public corporations must pay 40 percent of their profits as dividends to the state; (e) the coming intc operation during 1992-93 of urban real estate registers; (f) additional improvements in tax administration, including, the intensification of tax audits and fiscal controls, and coordination with the Customs Directorate on tax payer data bases, and (g) the reform, before the end of 1992, of the current policy of tax exemptions of Government purchases and imports financed with external aid, aimed at ending current abuses and making transparent the total effective cost of investment. Additional tax revenue is also expected to result from the recent privatization of the brewery (La Beninoise) as the new company will no longer be able to withhold tax collected to meet operating deficits as was the case with the former state-owned company.

11. Revenue collected by the Customs Directorate is projected to increase by 12.6 percent in 1992 and by 13.5 percent in 1993, reflecting, the projected increase in imports, the impact of continuing improvements in tax administration and the new measures to be undertaken during 1992-93. The new measures include: (a) an increase in the duty on cigarettes; (b) the subjection of government purchases financed from external sources, to regular duties and taxes, through the introduction of a tax credit system to be introduced by end 1992; (c) additional measures in the area of customs administration designed to reduce fraud and duty exemptions, and to improve efficiency in revenue collection, paying particular attention to effective control over entrepôt and transit operations; (d) a thorough reform of the external tariff designed to further simplify it, rationalize effective protection and reduce incentives for tax evasion while maintaining the

current rate of average customs taxation and (e) greater coordination with the Tax Directorate, and with the consultants in charge of the pre-inspection of imports. The new measure to be undertaken by the Customs and Tax Directorates will be incorporated in annual action programs for each directorate, which will be closely monitored with technical assistance from the Fund. As a result of these policies and actions, the ratio of total revenue to GDP is projected to rise from 11.4 percent in 1991 to 12.1 percent in 1992, and to 12.5 percent in 1993. Government revenue in 1992, will be supplemented by proceeds from the sale of assets (La Beninoise, Sonaci) amounting to CFAF 8.3 billion. Further sales of assets are envisaged during the course of 1993.

12. The revenue target of CFAF 69.4 billion for 1992, appears quite realistic on the basis of revenue collected during the first eight months of the year. For 1993, the objective is to achieve a 10 percent increase in revenue, to CFAF 76.3 billion.

13. In the area of public expenditure, Government's objectives continue to be: the reduction in the relative share of wages, salaries, scholarships, and pensions in total current expenditure; the improvement in the efficiency of the civil service; and the continued enhancement of the quality of investment outlays. The first two objectives are to be attained through the continued implementation of the program of departures from the civil service and a restructuring of the civil service. To compensate for earlier delays, the program of departures aims at achieving 3,300 civil servants leaving the service during 1992; a further 2,000 civil servants are scheduled to leave the service during 1993. In addition, significant administrative measures were taken during 1991 and 1992 to streamline the civil service (physical identification of people on the payroll, verification of academic qualifications and the establishment of a single civil service register) which aimed at further reducing the number of people on the payroll and the level of the wage bill. Given the delays and problems encountered since 1990, the implementation of the departures program will assume particular importance, and targets are to be monitored on a monthly basis. Between March 1 and August 31, 1992, 1,889 people left the civil service under the program of departures. For 1993, the target is to achieve 2,000 departures, through the continuation of the current incentive scheme, while ensuring the quality and efficiency of the civil service. To this end, audits have already been done of the ministries of rural development, health and education. Audits of other ministries will be pursued. Finally, recruitment will be strictly controlled and limited to no more than one for each three retirements. The Government decided to rectify anomalies and inequitable treatment that resulted from the inapplication of the official salary index and various decisions relating to promotions and in-grade increments before 1987. The total cost of these adjustments is estimated at CFAF 2.4 billion in 1992, on the assumption that all necessary adjustments will be made before the end of the year. The Government also decided to pay during 1992 CFAF 3 billion in salary arrears, including one month's arrears of salary (CFAF 2.4 billion) relating to 1988.

14. The public investment and the emergency social programs for 1992 and 1993, were designed in consultation with the World Bank. Government's contribution to the investment budget has been negligible and should increase rapidly after 1993. Measures have been taken to ensure that local counterpart funding for projects is henceforth disbursed on time and that the accumulated arrears are paid off. The emergency social program for 1992, includes, apart from outlays related to the severance pay and indemnities to be paid to employees leaving the civil service under the departures program, expenditure for the rehabilitation of education and health services, and related basic social infrastructure (schools, clinics and the urban road network), and for the training of young unemployed graduates.

15. During the program 1992-93, the Government intends to reinforce the actions at a fundamental restructuring of the civil service. The recommendations of the audit for the Ministry of Finance will be reviewed in consultation with the Fund and the World Bank before end-December 1992, with a view to expediting their implementation. The preparation of Treasury accounts will be accelerated to compensate for earlier delays and to improve accounting procedures. The management of the civil service would necessitate strong measures to effect improvement and apply uniform standards. A single registration system for civil servants is under preparation which will replace all existing registries. The civil service code will be streamlined during the course of 1992-93.

16. An inventory of domestic arrears was finalized during September 1992. The total stock of these arrears was estimated at CFAF 52.7 billion, comprising CFAF 15.6 billion in wage arrears and CFAF 37.1 billion in non-salary arrears, including CFAF 10.3 billion to the Central Bank (BCEAO). Salary arrears, net of salary advances to civil servants, amounted to CFAF 10.3 billion, while non-salary arrears, net of tax arrears and cancellation of claims, amounted to CFAF 30.8 billion. During the implementation of the budget for 1992, CFAF 3.3 billion of domestic arrears was paid off as of end-September 1992, of which CFAF 2.7 billion was on account of salary arrears. Additional payments amounting to CFAF 4.1 billion are envisaged during the last quarter of 1992, of which CFAF 300 million would relate to salary arrears. The balance of domestic arrears will be converted to non-interest bearing treasury certificates, whose retirement would be spread over a six-year period, starting in 1993.

17. The overall budget deficit (commitment basis) program target is CFAF 55.3 billion in 1992 and CFAF 41.3 billion in 1993. Taking into account financing required for the reduction in domestic arrears, the repayment of obligations to the Central Bank and to depositors in liquidated banks, and external debt service obligations due, and given the projected inflow of project related loans and grants, there remains a financing gap of CFAF 73.3 billion in 1992 and CFAF 33.5 billion in 1993. The 1992 financing gap is fully covered by aid from the multilateral and bilateral lenders and donors, and by debt relief already obtained. In 1993 Benin intends to request from Paris Club creditors and other bilateral creditors debt relief covering the second half of the year.

18. Monetary and credit policies will continue to be geared towards the consolidation of confidence in the new banking system, the restructuring of the postal checking and savings bank and rural credit agencies, and the reimbursement of liquidated banks' deposits. Government efforts to attract a bank of international reputation are expected to be rewarded by the forthcoming opening of a branch of Credit Lyonnais in Cotonou before end-1992. A new deposit reimbursement operation, financed by the proceeds of loan recovery held by the SYNDIC started in August 1992 which resulted in the reimbursement of all depositors with claims of up to CFAF 500,000. Judicial authorities should vigorously pursue their efforts to reduce the Syndic's operating costs. The program objective is for the Syndic to reach a cumulative total value of loan recovery (including sale of assets) of CFAF (10) billion by the end of 1992, and CFAF (12) billion by the end-June 1993. The restructuring of the postal savings and checking bank, and the rural credit scheme will continue with external assistance.

19. To support the diversification of the economy, the program provides for an increase in domestic credit to the private sector of 12 percent in 1992 and 5.1 percent in 1993 relative to the stock of broad money at the beginning of the year in question. Net bank credit to Government will decline by CFAF 10.6 billion (CFAF 7.7 billion including the onlending of the ESAF drawing) reflecting the reimbursement of the CFAF 10.6 billion to the Central Bank of credit in excess of the statutory limit, and of CFAF 4 billion of exceptional credit from the BCEAO. In 1993, an additional repayment to the Central Bank of CFAF 4 billion will be made on account of outstanding exceptional credits. The program limits on net bank credit to the Government and on total domestic credit for end-March 1993, constitute performance criteria; those set for end-December 1992, and end-June 1993, constitute program benchmarks. Given the projected increase in bank deposits with the new banks, the net foreign assets of the banking system are expected increase substantially during 1992-93. Velocity is expected to decline to more normal levels approximating the historical trend.

20. The external current account is projected to rise from 6.8 percent of GDP in 1991 to 8.6 percent in 1992, before declining to 8.0 percent in 1993. The increase in the external current account in 1992 is due largely to the significant increase in external interest charges. The value of exports should increase by 8 percent in 1992, and by only 4.1 percent in 1993, reflecting the decline in petroleum exports in the latter year. In order to allow for the continued decline in debt service charges, the Government will not contract or guarantee any non-concessional external loans with a maturity of between 1 and 12 years, except for loans related to debt rescheduling, or loans with less than one year's maturity, except for regular trade credit.

21. The Government has outlined in the updated PFP, its sectoral strategies and policies to be followed during 1992-1995. The overall development strategy will continue to emphasize the reduction in the role of the public sector in the economy and the creation of a policy environment conducive to the growth of the private sector. The Government is aware that the current restructuring and strengthening of the banking sector will not be sufficient

by itself to generate the rapid development of the private sector. Additional supportive measures will therefore be necessary to ensure especially an improvement in domestic costs and of competitiveness and encourage private entrepreneurship. These efforts would also benefit from the moderate trend in wages during the recent years. The Government is aware that while its current reform program has restored a measure of stability and growth to the economy, additional actions are likely to be needed to enable Benin to continue to improve its competitiveness and realize the high growth rates which are consistent with its potential. The Government is ready to take any further measures that will be required during the program period at the national as well as regional level given Benin's membership in the WAMU. Accordingly, the Government is undertaking a comprehensive study of factor costs and other determinants of competitiveness with a view to determining the additional actions that may be needed during the course of the program.

22. In the area of public enterprises, the program calls for the continued reduction in their numbers and an improvement in the performance of those that remain in the public domain. The sector reform program, which is described in the PFP, targets in particular: (a) the reduction in the number of enterprises in the government portfolio from 25 at the end of 1992 to 15 by the end-June 1993; (b) the adoption before end-1992 of a timetable for the privatization of the Savé Sugar Company (SSS) and the Onigbolo Cement Company (SCO) after consultation with the Nigerian partners; (c) the sale of the Bohicon oil mill and the refinery as well as invitations for bids for other plants of the palm product company (SONICOG) before March 1993; (d) the opening up of the insurance market to private insurers before end-October 1992, and of the capital of the state insurance company, SONAR, to private investors during 1993; and (e) the restructuring of the social security agency (OBSS) before end-December 1992.

23. The monitoring of the program will be done on the basis of quantitative performance criteria, and quantitative and structural benchmarks set for the period end-December 1992 to end-September 1993 (Table 1). The following measures will constitute performance criteria for end-March 1993: (a) a ceiling on net bank credit to the Government; (b) a ceiling on domestic credit of the banking system; (c) the reduction in domestic arrears; (d) the non accumulation of external payments arrears; (e) limits on non-concessional external borrowing or guarantees, with maturities between 1-12 years and; (f) limits on short-term borrowing or guarantees, except for normal import financing. Financial benchmarks for the same aggregates have been established for end-December 1992, end-June 1993, and end-September 1993. In the event that Government receives external financing, including debt relief, in excess of the amount projected under the program, ceilings on net bank credit to Government and on total domestic credit will be reduced paripasu. Total domestic revenue, primary expenditures, including salaries, pensions and scholarships, and the primary budget balance will constitute quantitative quarterly indicators for monitoring the program supported by the first annual arrangement (Table 2). Non observance of these indicators would trigger consultations with Fund staff with a view to taking the necessary corrective action.

24. The following measures will constitute structural benchmarks: (a) the adoption, before end-October 1992, of an action plan for the retirement of domestic salary and non-salary arrears, and the implementation of this plan during the program period; (b) the extension of the value-added tax to the telecommunications and cement production before end-December 1992 and; (c) the adoption, before end-December 1992, of the new procedures, relating to the taxation of government purchases financed by external assistance; (d) loan recovery by the recovery unit (SYNDIC) (including the sale of assets) of not less than CFAF 10 billion by end-December 1992 and CFAF 12 billion by end-June 1993; (e) the departure of 3,300 civil servants enjoying permanent status before end-December 1992 (excluding lay-offs or suppression of posts related to other administrative reforms).

25. The Fund will conduct a midterm review of the implementation of the adjustment program not later than end-May 1993. The Government intends to take all measures necessary to achieve the program's objectives. The completion of this review will constitute a performance criterion for the disbursement of the second loan under the first annual arrangement.

26. The Government will communicate to the Fund all the information necessary to monitor the progress made in implementing the policies and attaining the objectives of the program.

27. The Government believes that the measures described in this letter are sufficient for the attainment of program objectives, but will take additional measures that may become appropriate for this purpose. During the period of the arrangement, the Government of Benin will consult with the Managing Director of the Fund on the adoption of any such measures, at the initiative of the Government or whenever the Managing Director requests consultation. In addition, after the period of the arrangement, and while Benin has outstanding financial obligations to the Fund arising from loans under that arrangement, Benin will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Benin's economic and financial policies.

Sincerely yours,

Minister of Finance
/s/
Paul Dossou

Table 1. Benin: Financial and Structural Benchmark and Performance Criteria

	1991 Dec.	1992 June prov.	1992 Sept. prog.	1992 Dec. prog. 1/	1993 March prog. 2/	1993 June prog. 1/	1993 Sept prog. 1/	1993 Dec. proj.
	(In billions of CFA francs)							
I. Quantitative financial benchmarks								
Net bank credit to Government 3/ 4/	72.6	63.9	69.8	64.9	65.3	66.6	64.8	66.7
Domestic credit to the banking system 3/	80.4	81.4	83.8	86.9	92.3	93.6	93.8	96.7
Charge in verified government arrears domestic payments arrears 5/ (cumulative)	--	--	-4.0	-7.4	-1.0	-2.0	-3.0	-5.0
External payments arrears 6/	--	--	--	--	--	--	--	--
New external non-concessional loans of 1 to 12 year maturity contracted or guaranteed by the Government 7/	--	--	--	--	--	--	--	
Short-term borrowing with less than one year maturity 8/	--	--	--	--	--	--	--	
II. Structural Benchmarks								
a. Adoption of a plan of action to settle domestic arrears				end-October 1992				
b. Extension of the VAT to telecommunications and cement				end-December 1992				
c. Adoption of new procedures for taxation of foreign financed projects				end-December 1992				
d. Loan recovery from the three liquidated banks 9/				CFAF 10 billion by end-December 1992 CFAF 12 billion by end-June 1993				
e. Departure of 3,300 permanent government employees by end-December 1992				end-December 1992				
Memorandum item:								
Non project related external assistance, including debt relief (cumulative)	46.5	...	...	73.3	2.0	23.4	28.5	36.3

1/ Benchmarks.
2/ Performance criteria.
3/ These targets will be revised downwards by the amount by which disbursements on non project related external assistance including debt relief, exceeds the amount programmed.
4/ Net bank credit to the Government excludes the projects related deposits of the Amortization Fund.
5/ Excluding payments related to salary reclassification.
6/ No accumulation of external arrears will occur during the program period.
7/ Excludes loans contracted for debt rescheduling and normal import credits.
8/ Excluding normal import financing.
9/ Including sales of assets.

Table 2. Benin: Quarterly Quantitative Indicators, 1992-93

(In millions of CFA francs)

	1991	1992			1993			
	Dec.	June	Sept.	Dec.	March	June	Sept.	Dec.
	Actual	Prov.	Proj.	Prog.	Program			
Total budgetary revenue	61.4	34.0	50.8	69.5	17.4	35.6	54.6	76.3
Primary expenditure	58.7	31.0	46.1	62.2	15.6	31.7	47.5	62.9
Salaries, pensions and scholarships	45.5	23.3	34.9	46.4	11.2	22.4	33.6	44.4
Primary budget balance	2.7	3.0	4.7	7.0	1.8	3.9	7.1	13.4

BENIN - Relations with the Fund

(As of September 30, 1992)

I. Membership Status

(a) Date of membership	July 10, 1963
(b) Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota	SDR 31.3 million
(b) Total Fund holdings of Benin's currency	SDR 29.3 million (93.6 percent of quota)
(c) Reserve tranche position	SDR 2.0 million

III. Stand-by or Extended Arrangement and Special Facilities

Structural Adjustment Facility	SDR 15.65 million (50 percent of quota)

IV. SDR Department

(a) Net cumulative allocation	SDR 9.41 million
(b) Holdings	SDR 0.16 million (1.71 percent of net cumulative allocation)

V. Administered Accounts

Trust Fund loans	
(a) Disbursed	SDR 12.7 million
(b) Outstanding	--

VI. See attached table

Benin: Projected Payments to the Fund

(In millions of SDRs)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Beyond	Total
Obligations from outstanding use of resources												
Principal												
Repurchases	--	--	--	--	--	--	--	--	--	--	--	--
ESAF/SAF repayments	--	--	0.6	1.3	1.3	3.1	3.1	2.5	1.9	1.9	--	15.7
Trust Fund repayments	--	--	--	--	--	--	--	--	--	--	--	--
Charges and interest 1/	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.2	--	6.4
Total	0.7	0.7	1.3	2.0	2.0	3.8	3.8	3.2	2.5	2.0	--	22.1
Percent of quota	2.3	2.3	4.3	6.3	6.3	12.2	12.2	10.1	8.1	6.5	--	70.5
Obligations from prospective use of resources												
Principal												
Repurchases	--	--	--	--	--	--	--	--	--	--	--	--
ESAF/SAF repayments	--	--	--	--	--	--	2.3	5.5	8.6	9.4	21.1	47.0
Charges and interest 1/	--	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	1.8
Total	--	0.1	0.2	0.2	0.2	0.2	2.6	5.7	8.8	9.5	21.2	48.8
Percent of quota	0.1	0.3	0.5	0.7	0.8	0.8	8.2	18.2	28.0	30.4	67.9	155.8
Cumulative (outstanding and prospective)												
Principal												
Repurchases	--	--	--	--	--	--	--	--	--	--	--	--
ESAF/SAF repayments	--	--	0.6	1.3	1.3	3.1	5.5	8.0	10.5	11.3	21.1	62.6
Trust Fund repayments	--	--	--	--	--	--	--	--	--	--	--	0.1
Charges and interest 1/	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.3	0.1	8.2
Total	0.7	0.8	1.5	2.2	2.2	4.1	6.4	8.8	11.3	11.6	21.2	70.8
Percent of quota	2.3	2.6	4.8	7.0	7.0	13.0	20.4	28.3	36.1	36.9	67.9	226.3

1/ Projections are based on current rates of charge, including burden-sharing adjustments where applicable, for purchases from the General Resources Account; and on current interest rates for ESAF/SAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

BENIN - Relations with the Fund (concluded)

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

Intervention currency and the rate	French franc: CFAF 1 = FF 0.02
Local currency/SDR equivalent (as of September 30, 1992)	SDR 1 = CFAF 358.763

Like other member countries of the WAMU, Benin maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

VIII. Last Article IV Consultation

The last Article IV consultation discussions with Benin were held in Cotonou during the period April 24-May 8, 1991. The staff report (EBS/91/111) was discussed by the Executive Board on July 26, 1991.

Benin is on the standard 12-month consultation cycle.

IX. Technical Assistance and Other Staff Missions

Technical assistance missions from the Bureau of Statistics on balance of payments and general economic data visited Cotonou in November and December 1986. With the launching of the structural adjustment program during 1988-91, Fund technical assistance to Benin was intensified. A FAD mission visited Cotonou during October 1988 to review the tax system and recommend measures to increase government revenue. During May 1989, another FAD mission visited Cotonou to review the budgetary process and expenditure monitoring procedures. A Fund technical expert in taxation has been stationed in Cotonou since 1989, while another Fund resident expert has been advising on budgetary procedures since November 1990. A mission from FAD visited Cotonou during May 1991 to review the progress made in implementing tax reforms. A technical assistance mission from the Bureau of Statistics on balance of payments visited Cotonou in November 1989. In addition, the IMF Institute held a seminar in Cotonou on financial programming during April 1991.

Benin - Relations with the World Bank Group

(As of September 30, 1992)

Since becoming a member of the World Bank Group in 1963, Benin has benefitted from 41 IDA credits amounting to US$504.6 million, of which US$351.6 is disbursed. Initially, much of the assistance was delivered in the context of traditional projects, mainly in the agriculture, transport and telecommunications, and energy sectors. In recent years, the emphasis has changed to structural reform, social services and urban development, natural resources management, and rehabilitation of key sectors (public enterprises, cotton, and transport).

Since 1988 when the Beninese authorities embraced a comprehensive structural adjustment program, but especially since 1990-91 after the installation of a new democratic government, the policy dialogue with IDA and the international donor community has been substantially deepened. To support the reform program, IDA approved a first structural adjustment credit (SAL I) of US$45 million equivalent in 1989, followed by a second structural adjustment credit (SAL II) of US$55 million equivalent in 1991. SAL II aims to expand and deepen the reforms initiated under SAL I through: (i) reforms in the fiscal system to improve resource mobilization and contain expenditures; (ii) the administrative restructuring of key ministries and a civil service reduction program; (iii) pursuit of the financial system restructuring and establishing an appropriate judicial and supervisory framework for sound financial intermediation; (iv) rationalization of the public enterprise sector through further divestitures, privatizations, and improvements in the financial performance of enterprises remaining in the government portfolio; (v) further improvements in the trade regime and in the incentive structure for private investments; and (vi) short-term measures to protect vulnerable groups. Important new elements of the reform program comprise: (i) a rehabilitation program for critical administrative and social infrastructure; and (ii) measures to lay the basis for reform of the educational system.

Benin - Relations with the World Bank Group (concluded)

(As of September 30, 1992)

Net Lending by the World Bank Group, 1986-95 1/

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
			Actual			Est.	Proj.			
Commitments	26.90	19.50	37.00	63.60	2.60	87.70	37.0	13.6	29.0	15.1
Projects	26.90	19.50	37.00	18.60	2.60	32.70	37.0	13.6	29.0	15.1
Policy loans	--	--	--	45.00	--	55.00	--	20.0	35.0	--
Disbursements	26.71	21.77	22.42	47.50	55.58	41.83	45.11	36.16	26.52	15.65
Projects	26.71	21.77	22.42	25.00	24.36	26.14	20.80	21.16	--	15.65
Policy loans	--	--	--	22.50	22.50	15.69	24.31	15.0	27.02	17.5
SAL I	--	--	--	22.50	22.50	--	--	--	--	--
SAL II	--	--	--	--	--	15.69	24.31	15.0	--	--
Debt service	1.72	1.77	2.38	2.57	2.91	3.78	5.75	6.71	7.83	8.31
Interest and charges	1.35	1.36	1.83	1.74	2.11	2.39	3.16	3.38	3.53	3.60
Principle	0.38	0.41	0.55	0.82	0.80	1.38	2.59	3.33	4.30	4.71
Net transfers	24.99	20.0	20.04	44.93	52.67	38.05	39.36	29.45	18.69	7.34

Sources: IDA Statement of Development Credits, December 1990 and 1991; and Bank Debt Reporting System as of June 29, 1992.

1/ Date of approval.

BENIN - Basic Data

Area, population, and GDP per capita

Area	112,600 sq. km.
Population: Total (1991)	4.89 million
Growth rate	3.2 percent
GDP per capita (1991)	US$390

	1987	1988	1989	1990	1991
		(In billions of CFA francs)			
Gross domestic product					
At current prices	496.6	482.6	479.4	502.8	537.1
At 1991 prices	501.2	508.9	494.7	512.8	537.1
		(In percent of GDP)			
Agriculture	33.3	34.4	37.3	35.9	37.0
Industry, housing, and public works	12.4	13.4	13.7	14.3	13.7
Services	46.1	46.5	45.3	45.3	44.5
		(Annual change in percent)			
Real GDP	-1.5	1.5	-2.8	3.7	4.7
Nominal GDP	1.5	2.8	-0.7	4.9	6.8
Prices					
GDP deflator	-3.2	1.2	2.2	1.2	2.0
		(In billions of CFA francs)			
Central government finance					
Revenue	60.5	61.4	44.9	49.9	61.5
Total expenditure and net lending	112.4	107.6	95.9	100.1	100.2
Of which: current expenditure	(80.7)	(79.1)	(68.1)	(70.7)	(71.1)
capital expenditure	(31.7)	(33.6)	(25.9)	(26.9)	(28.2)
Overall surplus/deficit (-) (commitment basis)	-51.9	-46.2	-51.0	-50.2	-38.7
Overall surplus/deficit (-) (cash basis)	-29.6	-31.7	-64.7	-52.5	-42.5
Financing					
External	25.8	33.3	-55.5	17.1	7.7
Domestic	3.8	-1.6	-5.3	3.4	-11.6
Exceptional	--	--	125.5	32.1	46.3

BENIN - Basic Data (concluded)

	1987	1988	1989	1990	1991
	(In billions of CFA francs)				
Money and credit 1/					
Net foreign assets	52.6	-46.7	-11.3	18.9	54.6
Net domestic assets	160.8	171.6	158.5	79.2	76.8
Net claims on the Government	19.1	16.9	14.4	76.3	70.2
Money and quasi-money	97.4	116.1	135.3	88.6	118.6
	(In billions of CFA francs)				
Balance of payments					
Exports, f.o.b.	110.1	112.1	69.5	78.2	92.7
Of which: domestic	(29.5)	(20.0)	(29.5)	(32.1)	(37.1
Imports, f.o.b.	-139.2	-151.2	-101.0	-116.5	-136.1
Trade balance	249.3	263.3	-31.5	-38.3	-43.3
Services (net)	-23.2	-22.3	-19.8	-16.2	-14.9
Private transfers	24.4	24.3	21.0	19.0	19.8
Current account balance (before grants)	-27.9	-37.1	-30.4	-35.4	-36.8
Official transfers	17.6	21.6	34.3	16.0	18.3
Medium- and long-term official capital	2.5	6.8	-10.6	6.4	13.3
Disbursements	17.7	17.6	19.6	17.5	22.8
Amortization	-20.2	-10.8	-30.2	-11.1	-9.5
Long-term private capital	0.4	0.4	0.4	0.5	8.0
Short-term capital and errors and omissions	-26.9	-6.3	-5.6	3.9	8.9
Overall surplus/deficit-)	-39.3	-14.6	-11.9	-16.5	--
Change in arrears	16.4	20.5	-80.5	14.4	-14.4
Gross official reserves					
Gross reserves	1.0	1.3	1.0	21.2	49.7
In weeks of imports	...	...	0.4	8.0	16.1
External public debt					
Disbursed and outstanding Medium- and long-term	229.8	247.9	224.3	247.3	264.2
Debt service ratio (percent of goods and nonfactor services)	21.7	12.8	43.5	19.8	14.3
Arrears (end of period)	66.3	85.7	13.2	14.4	0.2
	(CFA francs per U.S. dollar)				
Exchange rate					
Period average	300.6	297.9	319.0	272.3	282.1
End of period	267.0	302.9	289.4	256.5	259.0

1/ Starting in 1990, the monetary statistics exclude the accounts of the liquidated banks, which accounts for the observed subsantial shift in the level of domestic credit and broad money. The liabilities of the liquidated banks to the BCEAO were assumed by the Government, which explains the observed jump in net credit to Government in 1990.

Benin: Selected Social and Demographic Indicators 1/

Area (sq. km.)	113,000
Agricultural land (in percent of total)	20.1
Population and vital statistics	
Total population (in millions) (1989)	4.6
Population growth rate (in percent)	3.2
Urban population (percent of total)	37.0
Population density (per sq. km. of agricultural land	30.0
Population age structure (in percent)	
0-14 years	47.4
15-64 years	49.8
65 and above	2.8
Crude birth rate (per thousand)	46.0
Crude death rate (per thousand)	15.0
Infant mortality rate (per thousand)	112.0
Life expectancy at birth (years)	51
Health and nutrition	
Access to safe water (in percent of population)	
Total	14.0
Urban	45.0
Rural	9.0
Population per physician (in thousands)	15.9
Per capita supply of:	
Calories (per day)	2,145
Protein (grams per day)	49.0
Labor force	
Total labor force (millions)	2.1
Participation rate (in percent)	
Total	47.2
Female	44.4
Education	
Enrollment rates (in percent)	
Primary	63.0
Secondary	16.0
Pupil-teacher ratio	
Primary	35.0
Secondary	33.0

Source: World Bank.

1/ Unless otherwise stated, estimates refer to the most recent estimates between 1986 and 1991.