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INFORMATION

August 13, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Benin - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Benin, which will be brought to the agenda for discussion on a date to be announced.

Mr. Carstens (ext. 8388) or Miss Valdivieso (ext. 8391) 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 1987 Article IV Consultation

Prepared by the Staff Representatives
for the 1987 Consultation with Benin

Approved by A.D. Ouattara and H.B. Junz

August 12, 1987

I. Introduction

The 1987 Article IV consultation discussions with Benin were held in Cotonou during the period June 1-12, 1987. ^{1/} The last Article IV consultation was concluded on April 23, 1986. Benin continues to avail itself of the transitional arrangements under Article XIV of the Fund's Articles of Agreement. It has made no use of Fund resources, but is eligible for access under the structural adjustment facility. Benin is a member of the West African Monetary Union (WAMU), and its currency, the CFA franc, is pegged to the French franc. Summary statements on Benin's relations with the Fund and the World Bank are provided in Appendices I and II, respectively; statistical issues are discussed in Appendix III; and basic economic and financial data and social indicators are presented in Appendix IV.

II. Background and Economic Developments in 1986 ^{2/}

Benin faces an extremely difficult economic and financial situation, which is characterized by low growth, sizable fiscal and

^{1/} The Beninese representatives included Mr. Mallam-Idi, Economic Counselor to the President and President of the Special Committee for the National Economic Adjustment Program; Mr. Bidouzo, Minister of Finance and Economy; Mr. Ibrahim, Minister of Plan and Statistics; Mr. Saliou, Minister of Justice in charge of Public Enterprises; Mr. Medjé, National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Carstens (head), Miss Valdivieso, and Messrs. N'guiamba, Ndoye (all AFR), and Ramtoolah (INST), with Miss Hebron (AFR) as secretary. Mr. Carstens also held discussions with Governor Fadiga and other senior officials of the BCEAO in Dakar on his way back to Washington.

^{2/} Economic and financial data for Benin lack internal consistency and are not up to date. Consequently, data used in the report, particularly national income accounts and the balance of payments, should be treated with caution and only as indicators of trends.

external imbalances, a large stock of domestic and external arrears, a virtually bankrupt banking system, and an overextended public enterprise sector dominated by structurally weak and loss-making enterprises. Although Benin's economic performance has been adversely affected by fluctuations in economic activity in trade-partner countries, the economy's structural problems are predominantly the direct result of years of inappropriate fiscal, credit, and external policies coupled with poor administrative and planning mechanisms. In particular, the authorities have been unable to control the central government wage bill, at times when fiscal revenue was falling. The government policy of automatically hiring all students who completed their higher education (university or specialized institutions) in Benin or abroad and providing for advancement of civil servants every second year, has continued to be applied and has brought about a rapid expansion of the wage bill, which accounted for 41 percent of central government total expenditure in 1986. ^{1/}

In 1986, Benin's economic performance was disappointing. The gains in the agricultural sector stemming from favorable weather conditions were not sufficient to offset a marked decline in most manufacturing activities and crude oil production and continued sluggish trade with Nigeria. Preliminary estimates indicate that real GDP was stagnant. As a result, the real rate of growth during 1983-86 averaged 2.6 percent, below the population growth rate of 3.1 percent (Table 1).

The overall fiscal deficit, on a commitment basis and excluding grants, declined from the equivalent of 11.3 percent of GDP in 1985 to 10.4 percent in 1986 because of the declining amount of grants received in 1986. Including grants, the deficit widened from CFAF 31 billion or the equivalent of 6.7 percent of GDP in 1985 to CFAF 35 billion or 7.1 percent of GDP in 1986 (Table 2). There was a further accumulation of domestic and external payments arrears related to expenditure amounting to about CFAF 24 billion, of which CFAF 18 billion was due to higher outlays on wages, and materials and supplies compared to the level budgeted. At the end of 1986, total outstanding central government arrears are estimated at CFAF 146 billion, equivalent to 30 percent of GDP and nearly twice the size of total revenue (including grants); about CFAF 100 billion of the arrears are on external debt service payments. As a result, the overall fiscal deficit on a cash basis amounted to 2.3 percent of GDP. This deficit was largely financed by foreign resources. The deterioration in the fiscal position largely reflected a 9 percent decline in total revenue and grants of the Government, owing mostly to a marked decline in grants. Total expenditure declined by 3 percent. Personnel expenditures rose by

^{1/} Economic and financial developments during the period 1982-85 are described in SM/86/41 (2/2/86) and SM/86/28 (2/13/86), including Supplement 1 (4/21/86).

Table 1. Benin: Selected Economic and Financial Indicators, 1983-87

	1983	1984	1985	1986 Est.	1987 Proj.
	(Annual percentage change)				
Output and prices					
GDP at current prices	9.8	11.7	10.5	4.9	5.6
GDP at constant prices	-2.2	2.3	6.2	-0.2	0.6
Implicit deflator	12.2	9.3	5.9	4.6	5.0
External sector (in CFA francs)					
Exports, f.o.b.	10.7	43.2	25.7	-44.7	-4.9
Imports, f.o.b.	-28.2	-19.3	49.2	-5.2	0.2
Terms of trade (deterioration -)					
Including oil exports	...	-15.4	2.5	-38.8	6.4
Excluding oil exports	-9.0	-26.1	9.4	-28.0	-9.2
Nominal effective exchange rate (depreciation -) <u>1/</u>	-8.3	-5.8	0.6	12.5	...
Consolidated central government					
Revenue and grants	-8.7	-2.9	14.8	-8.7	-6.0
Expenditure and net lending	7.9	7.8	-7.7	-2.9	-9.8
Money and credit					
Net domestic assets (with respect to beginning money stock)	18.0	6.7	6.6	-3.6	...
Net claims on Government (with respect to beginning money stock)	12.1	15.6	-7.8	2.0	...
Net claims on private sector (with respect to beginning money stock)	15.2	-4.7	3.9	-11.6	...
Broad money (M2)	2.9	10.0	0.6	-2.0	...
Velocity (M2)	3.7	3.8	4.1	4.3	...
	(In percent of GDP)				
Consolidated central government deficit (-)					
Commitment basis, including grants	-10.6	-12.1	-6.7	-7.1	-5.6
Commitment basis, excluding grants	-16.2	-17.8	-11.3	-10.4	-7.3
Cash basis	-5.4	-4.7	-2.3	-2.3	-3.1 <u>2/</u>
Domestic bank financing	3.2	3.8	-1.9	0.5	0.2
External financing	2.9	2.7	2.8	3.3	3.0
External current account deficit (-) <u>3/</u>	-13.6	-0.5	-4.7	-10.4	-9.3
External debt					
Total outstanding, end of period <u>4/</u>	69.4	67.2	55.6	51.8	34.6
Debt service ratio <u>5/</u>	40.0	40.8	36.9	63.0	33.9
Interest payments due <u>5/</u>	3.0	3.6	2.5	2.6	1.2
Stock arrears <u>6/</u>	6.3	10.4	14.8	20.7	9.4
	(In millions of SDRs)				
Overall balance of payments (deficit) <u>7/</u>	-77.1	-45.0	-46.9	-95.2	-84.9
Gross official reserves (weeks of imports)	1.0	0.5	0.7	0.6	...
Outstanding external debt arrears	53.6	92.0	148.7	253.3	...

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

1/ Import-weighted.

2/ Obtained as the difference between the overall deficit on a commitment basis (including grants) and the level of net domestic and foreign financing projected by the staff.

3/ Including transfers.

4/ Excluding arrears and for 1987, excluding the outstanding debt related to the sugar (Savé) and cement (Onigbolo) projects (CFAF 57.1 billion).

5/ In percent of exports of goods and nonfactor services. Excluding for 1987, debt-service payments related to the sugar and cement projects.

6/ Excluding unpaid moratorium interest on arrears. For 1987, it excludes the unpaid debt of Savé and Onigbolo.

7/ Excluding valuation changes related to official net foreign assets.

Table 2. Benin: Consolidated Central Government Operations, 1/ 1983-87

	1983	1984	1985	1986	1987	
				Estimated outturn	Revised Budget	
					Without measures 2/	With measures 3/
(In billions of CFA francs)						
Revenue and grants	72.52	70.39	80.82	73.79	68.83	69.33
Revenue	51.52	46.39	59.52	58.18	59.95	60.45
Tax revenue	51.08	45.19	49.48	48.80	47.22	47.22
Nontax revenue 4/	0.44	1.20	10.04	9.38	12.73	13.23
Grants	21.00	24.00	21.30	15.61	8.88	8.88
Of which: capital grants	(16.00)	(18.00)	(10.16)	(9.29)	(6.22)	(6.22)
Expenditure and net lending	112.15	120.86	111.57	108.37	101.94	97.74
Current expenditure	66.64	78.00	82.94	78.95	78.34	74.14
Of which: personnel expenditure 5/	(36.17)	(36.31)	(37.22)	(44.00)	(46.62)	(42.84)
interest due on public debt 6/	(6.69)	(16.66)	(12.08)	(8.82)	(5.23)	(5.23)
Capital expenditure and net lending	45.51	42.86	28.63	29.42	23.60	23.60
Overall deficit (-) (commitment basis)						
Including grants	-39.63	-50.47	-30.75	-34.58	-33.11	-28.41
Excluding grants	(-60.03)	(-74.47)	(-52.05)	(-50.19)	(-41.99)	(-37.29)
Change in expenditure-related arrears (decrease -) 7/	19.55	30.95	20.26	23.61	17.04 8/	12.34 8/
Domestic	15.54	16.28	11.56	17.82
External	4.01	14.67	8.70	5.79
Overall deficit (-) (cash basis)	-20.08	-19.52	-10.49	-10.97	-16.07	-16.07
Financing	20.08	19.52	10.49	10.97	16.07	16.07
Foreign financing	10.68	11.33	12.96	14.72	15.27	15.27
Borrowing 9/	(13.58)	(13.19)	(16.33)	(17.81)	(21.76)	(21.76)
Amortization paid	(-2.90)	(-1.86)	(-3.37)	(-3.09)	(-6.49)	(-6.49)
Domestic financing	9.40	8.19	-2.47	-3.75	0.80	0.80
Of which: from the banking system	(11.82)	(15.74)	(-8.62)	(2.25)	(0.80)	(0.80)
(In percent of GDP)						
Memorandum items:						
Overall deficit (-) (commitment basis)						
Including grants	-10.6	-12.1	-6.7	-7.1	-6.5	-5.6
Excluding grants	-16.2	-17.8	-11.3	-10.4	-8.2	-7.3
(In billions of CFA francs)						
Gross domestic product (GDP) 10/	373.43	417.19	460.98	483.73	510.90	510.90

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

1/ These operations include those of the Treasury, the Caisse Autonome d'Amortissement (CAA), the Fonds National d'Investissement (FNI), the Road Fund, the Stabilization Fund, and expenditures incurred abroad and financed through the use of foreign grants and loans.

2/ As provided to the staff in June 1987, it does not include corrective measures.

3/ Including the expected impact of corrective measures adopted by the authorities since the approval of the budget.

4/ Including adjustment for cash basis and unclassified revenue accounts.

5/ Data for years prior to 1985 may not be strictly comparable with data for subsequent years, owing to differences in classification. Personnel expenditure covers wage and wage-related outlays.

6/ Includes Government's direct debt, and publicly guaranteed debt assumed by the Government.

7/ Includes changes in the stocks of treasury "bons de caisse" and "virements différés".

8/ Obtained as the difference between the overall deficit on a commitment basis (including grants) and the level of net domestic and foreign financing projected by the staff.

9/ Defined as borrowing by the CAA less on-lending to public enterprises, because data on gross borrowing by the CAA are not available.

10/ World Bank and Fund staff estimates.

18 percent mainly as a result of the recruitment of some 4,000 employees, but the increase was more than offset mainly by a decline in interest payments due on the Government's debt. Capital expenditure remained virtually stagnant and represented a relatively small component of the Beninese Government's financial operations following a 35 percent decline in 1985, reflecting mainly the inability of the Government to provide counterpart funds needed to secure foreign financing.

Monetary and credit developments in 1986 reflected the low level of economic activity, but more importantly the difficult financial position of the three deposit money banks which, in turn, instilled uncertainties about the future of the domestic financial system. During the year the BCEAO suspended the use of overdraft facilities, nonperforming assets continued to increase, and two of the three banks did not engage in credit operations. Credit to the private sector (including public enterprises), with respect to beginning money stock, declined by 11.6 percent and money supply by 2 percent. Net credit to the Government increased by CFAF 2.3 billion or the equivalent of 2 percent, with respect to beginning money stock (Table 3). As of end-1986, of the total credit extended by all the banks, close to 50 percent may be considered as irrecoverable. Most of the irrecoverable claims are owed against the public enterprises, which have been increasingly unable to service their bank loans. This moderately restrictive credit policy stance together with the maintenance of a flexible interest rate policy (the basic discount rate averaged 9 percent in nominal terms, a high rate compared to rates prevailing abroad, especially France) enabled the central bank to contain pressures on the net foreign asset position of the banking system that emerged from declining private sector holdings of domestic financial assets. Monetary holdings of the private sector declined by 2 percent in nominal terms.

The balance of payments also showed a further deterioration in 1986 with the external current account deficit doubling from the equivalent of 4.7 percent of GDP in 1985 to 10.4 percent (Table 1). A very sharp decline in world market prices for Benin's main exports, crude oil and cotton, together with the concurrent appreciation of the exchange rate in nominal terms, were the main factors behind the deterioration in the current account. Oil export unit value fell by 66 percent in CFA franc terms and by 56 percent in U.S. dollar terms while that of cotton declined by 54 percent in CFA franc terms and by 46 percent in U.S. dollar terms. The volume of oil exported declined by 33 percent while that of cotton increased by 36 percent; this volume increase, however, was more than offset by the price fall. As a result, the value of exports declined by 45 percent. The decline in crude oil output was the combined result of technical problems and a generally lower-than-anticipated level of physical implementation of the Sémé project, caused by a freeze in disbursements by the World Bank and the European Investment Bank in response to Benin's change in operator without prior consultation. Although the capital account recorded some improvement, the overall deficit widened from CFAF 21 billion in 1985 to

Table 3. Benin: Monetary Survey, 1982-86

(In billions of CFA francs; end of period)

	1982	1983	1984	1985				1986			
				March	June	Sept.	Dec.	March	June	Sept.	Dec.
Net foreign assets	-14.16	-28.42	-24.76	-30.58	-20.08	-27.80	-31.00	-42.03	-39.28	-30.91	-29.63
BCEAO	-2.44	-18.47	-18.79	-24.44	-17.05	-21.66	-22.52	-29.90	-24.48	-22.27	-22.93
Deposit money banks	-11.72	-9.95	-5.97	-6.14	-3.03	-6.14	-8.48	-12.13	-14.80	-8.64	-6.70
Domestic credit	117.60	144.30	155.27	158.66	146.72	148.73	151.00	157.85	153.53	142.89	140.38
Claims on Government (net)	-13.42	-1.60	14.13	13.41	10.34	9.52	5.50	7.29	8.86	8.44	7.77
Claims on the private sector 1/	131.02	145.90	141.14	145.25	136.38	139.21	145.50	150.56	144.67	134.45	132.61
Of which: financed by the BCEAO	(34.90)	(39.30)	(39.98)	(45.20)	(37.29)	(38.97)	(42.43)	(49.63)	(44.41)	(42.44)	(44.55)
Money and quasi-money	97.70	100.54	110.61	109.77	110.43	104.19	111.32	112.28	115.96	108.18	109.15
Currency outside banks	28.84	22.51	26.95	25.57	25.83	22.29	20.26	20.40	22.11	24.17	26.17
Demand deposits	52.37	58.73	59.56	57.67	57.95	53.87	63.63	59.15	60.02	50.46	56.27
Private deposits with the postal checking system	2.59	2.90	2.98	3.70	3.10	3.35	2.90	3.83	3.63	3.83	2.74
Time deposits with banks	13.90	16.40	21.12	22.83	23.55	24.68	24.53	28.91	30.20	29.72	23.97
Long-term foreign liabilities 2/	8.77	9.59	10.24	9.97	9.89	9.27	9.10	8.82	9.71	9.13	7.10
SDR counterpart	3.24	3.75	4.11	4.11	4.43	4.43	4.43	4.43	3.85	3.85	3.85
Other items (net)	-6.27	-2.00	-5.55	-4.23	-1.89	-3.04	-4.85	-9.71	-15.27	-9.18	-9.35
Memorandum items:											
Net domestic assets 3/	115.11	132.71	139.47	144.45	134.94	136.43	146.76	158.74	159.10	142.94	142.63

Sources: BCEAO; and staff estimates.

1/ Including credit to public enterprises.

2/ Including long-term foreign liabilities of deposit money banks and Trust Fund loans, which are treated here as long-term liabilities of the central bank (BCEAO) and are valued at market exchange rates.

3/ Defined as domestic credit net of on-lending of long-term foreign borrowing and "other items (net)".

CFAF 39 billion in 1986 (Table 4). As most of this deficit could not be financed through drawings on reserves, there was a further accumulation of external payments arrears amounting to CFAF 38 billion. As of end-1986, gross official reserves amounted to SDR 3.2 million or the equivalent of less than a week of the projected import level for 1987; Benin's position in the BCEAO operations account at the French Treasury had a negative balance of CFAF 23.7 billion, or SDR 60 million.

Outstanding government and government-guaranteed external debt, excluding arrears, rose from the equivalent of SDR 618 million at the end of 1985 to SDR 635 million at the end of 1986. Of this amount, 45 percent was owed to private financial institutions, 38 percent to multilateral institutions, and 17 percent to bilateral sources, including suppliers' credits. In turn, about 66 percent of the amount owed to private financial institutions represented the debt of the cement and sugar joint ventures with Nigeria. Scheduled debt service payments rose from the equivalent of 36.9 percent of exports of goods and nonfactor services in 1985 to 63 percent in 1986. The debt service related to the joint ventures with Nigeria (SDR 132 million) has not been paid thus far. In December 1986, the arrears (excluding late interest) and maturities falling due through the end of 1987 related to those two projects were rescheduled 100 percent at the Paris Club meeting with Nigeria; the burden sharing of these obligations between Benin and Nigeria has not yet been established. 1/

Benin's currency, the CFA franc, is pegged to the French franc. In 1986 the import-weighted nominal effective exchange rate appreciated by 12.5 percent. The absence of consumer price data precludes the calculation of trends in the real effective exchange rate. Even information on wage increases is not available and therefore cannot be used for this purpose.

III. Report on the Discussions

At the conclusion of the last Article IV consultation with Benin, Executive Directors stressed the need for urgent action and encouraged the authorities to adopt a comprehensive and vigorous adjustment program

1/ It should be noted that although the loans to finance the two projects were jointly and severally guaranteed by the Governments of both Benin and Nigeria, there has been no agreement between the two governments as to how these liabilities will be shared. Therefore, the staff has provisionally ascribed the entire debt to Benin in this report through 1986. Nigeria has legally assumed the obligation to honor the arrears and maturities due vis-à-vis the foreign creditors. Assuming that this arrangement will be repeated even though no agreement has been reached between the two countries on the pro-rating of the debt, from 1987 onward, both the balance of payments and the financial accounts of the Government exclude the debt service related to these projects.

Table 4. Benin: Balance of Payments, 1982-87

(In billions of CFA francs)

	1982	1983	1984	1985	1986	1987
			Estimates			Proj.
Trade balance	-97.9	-54.4	-15.5	-38.4	-68.6	-71.0
Exports, f.o.b.	41.0	45.4	65.0	81.7	45.2	43.0
Of which: crude oil	(-)	(12.4)	(32.5)	(30.1)	(7.1)	(10.4)
cotton	(1.5)	(4.9)	(11.7)	(18.4)	(11.6)	(10.9)
re-exports	(33.1)	(22.7)	(5.0)	(10.0)	(11.0)	(13.0)
Imports, f.o.b.	-138.9	-99.8	-80.5	-120.1	-113.8	-114.0
Of which: petroleum products	(-11.0)	(-12.7)	(-17.3)	(-22.3)	(-8.0)	(-9.4)
Services balance (net)	-25.5	-26.5	-20.1	-24.4	-23.5	-17.9
Of which: interest due on external public debt ^{1/} _{2/}	(-3.3)	(-11.2)	(-15.1)	(-11.7)	(-12.5)	(-6.1)
Unrequited transfers	40.2	30.0	33.5	41.0	41.7	41.5
Of which: official	(21.6)	(21.0)	(19.4)	(18.4)	(16.8)	(13.5)
Current account balance	-83.2	-50.9	-2.1	-21.8	-50.4	-47.4
Capital movements (net)	78.1	17.4	-6.9	-4.4	5.1	14.5
Medium and long-term public and publicly guaranteed	69.0	30.4	-4.9	-11.9	-3.4	8.1
Disbursements	(72.8)	(44.0)	(17.1)	(16.8)	(28.2)	(25.1)
Amortization due ^{3/}	(-3.8)	(-13.6)	(-22.0)	(-28.7)	(-31.6)	(-17.0)
Short-term capital	9.1	-13.0	-2.0	7.5	8.5	6.4
Errors and omissions	-14.4	2.1	-11.2	4.8	6.6	--
Overall balance	-19.5	-31.4	-20.2	-21.4	-38.7	-32.9
Financing	19.5	31.4	20.2	21.4	38.7	32.9
Change in official net foreign assets (increase -)	17.7	16.0	0.3	2.9	0.4	...
Of which: operations account	(18.9)	(15.3)	(0.2)	(4.0)	(0.1)	(...)
Accumulation of payments arrears ^{2/}	1.8	15.4	19.9	18.5	38.3	...
Principal	(0.7)	(9.3)	(12.3)	(13.3)	(28.9)	(...)
Interest	(1.1)	(6.1)	(7.5)	(5.2)	(9.4)	(...)
Memorandum items:						
External debt flows relating to sugar (Savé) and cement (Onigbolo) joint-venture projects						
Disbursements	18.9	11.5	1.1	0.6	--	--
Scheduled debt service	1.8	11.0	11.6	22.7	12.7	11.8
Interest	(1.2)	(3.7)	(3.8)	(8.8)	(5.0)	(4.7)
Amortization	(0.6)	(7.3)	(7.8)	(13.9)	(7.7)	(7.1)
Debt service ratio (in percent of exports of goods and nonfactor services)	3.2	17.7	12.7	20.7	17.5	17.4
Change in unpaid moratorium interest on arrears (total debt)	--	0.7	1.9	2.4	4.1	1.8
Of which: Savé and Onigbolo	(-)	(0.6)	(1.6)	(1.9)	(2.5)	(-)
Total debt service ratio (in percent of exports of goods and nonfactor services)	12.7	40.0	40.8	36.9	63.0	33.9 ^{3/}

Sources: BCEAO; and staff estimates.

^{1/} Through 1986, the items include interest and amortization, respectively, related to the sugar and cement projects. In 1987, the debt-service payments related to these projects have been excluded.

^{2/} Excludes unpaid moratorium interest on arrears.

^{3/} Excluding debt service related to the Savé and Onigbolo projects.

that could improve the external position and lead to a sustained economic recovery. As the main thrust of an adjustment program would have to consist of a sharp reduction in the fiscal imbalance, Directors urged the authorities to bring under control the current expenditure of the Central Government, particularly the wage bill, and to cut non-priority investment outlays while simultaneously renewing efforts to raise revenue.

The Beninese representatives are conscious of the magnitude of the problems facing Benin and of the need to undertake a comprehensive adjustment effort. They expressed concern about the very difficult prospects for the remainder of the year and over the medium term. They emphasized that they were resolved to address their difficult economic and financial situation and indicated that this resolve was evidenced by the creation in May 1986 of a National Adjustment Committee, whose sole responsibility was to negotiate an adjustment program supported by Fund resources; by the work undertaken by the Committee to prepare the ground for those negotiations; and by the steps being taken by the Government to reform the banking system, rehabilitate the public enterprise sector, and improve Benin's investment planning capabilities. Against this background, the present discussions focused on the adjustment and structural policies still required to bring about a resumption in economic growth and achieve a significant and sustainable improvement in the fiscal and external positions over the medium term.

1. Economic growth and development policies

The Beninese representatives stated that in line with their basic development strategy, the Government remained committed to promoting an increase in and diversification of domestic agricultural production not only to maintain food self-sufficiency, but also to supply raw materials for local processing and to increase exports. A key component of this strategy is the emphasis being placed on integrated rural development projects combining the production of cash crops, such as cotton, with essential food crops, such as maize. In this regard, the Beninese representatives stressed the strong response of cotton growers to increases in producer prices, timely distribution of inputs, and the use of improved seeds as well as better irrigation. Together with a rapid rise in cotton yields, there have also been steady increases in the yields of other crops, especially cereals. As a result, output of seed cotton has expanded from 44,000 tons in 1983/84 to 89,000 tons in 1985/86 reaching a record level of 130,000 tons in 1986/87. Cereal crops have increased, on average, by 50 percent in volume terms between 1983/84 and 1985/86.

The Beninese representatives pointed out, however, that the fall in world market prices for cotton since the second half of 1985, combined with the appreciation of the CFA franc vis-à-vis the dollar and weak financial management of certain institutions engaged in the cotton sector, had resulted in serious financial problems in the sector. Consequently, the Government had had no choice but to announce a

reduction in the producer price for cotton for the crop year 1987/88 to CFAF 100 per kilogram from CFAF 110 in 1986/87. In addition, the Government has continued to implement the timetable, agreed with the World Bank, to fully abolish input subsidies by 1989. The Beninese representatives stated that this difficult decision was necessary given that the cotton export price was now well below production costs and because the cotton marketing agency (SONAPRA) had exhausted the surplus funds accumulated in the past, to finance extra costs associated with a total seed cotton production that had largely exceeded the capacity of the processing (ginning) plant in 1986/87. Assuming some improvements in operating efficiency and given the 25 percent reduction in the real producer price for the 1987/88 crop season, it is projected that the operating deficits in the cotton sector at 1986 constant prices would be about CFAF 6.4 billion in 1987 and CFAF 1.6 billion in 1988 but would be eliminated by 1989. In response to the reduction in the producer price, cotton production is expected to drop to about 92,000 tons in 1987/88, with gradual increases thereafter in response to expected higher producer prices reflecting better world market conditions. The Beninese representatives concurred with the staff representatives on the urgency of addressing the problems in the cotton sector and indicated that they were confident that the loss of competitiveness was temporary. Moreover, they hoped that the expected gains over the medium term in cotton processing and in marketing procedures would contribute to strengthening the sector. They also indicated that they were considering the possibility of privatizing SONAPRA.

With regard to crude oil production, the Beninese representatives indicated that the PAN OCEAN group that had become the operator of the Sémé field in September 1985 had withdrawn in 1986. A replacement will soon be chosen between two other candidate companies presently under consideration. The Beninese representatives concurred with the Fund mission that in the absence of indications of the existence of other immediately recoverable oil deposits in commercial quantities, the oil sector was not likely to contribute importantly to growth and export earnings during 1988-92. With recoverable reserves estimated at about 13 million barrels and an average rate of exploitation of 7,000 barrels per day, the reserves would be depleted by 1991. Output in 1987 is expected to recover to 2.2 million barrels from 1.8 million barrels in 1986, and to increase gradually to 2.7 million barrels in 1990 and 1991; in 1992 production would be negligible.

Discussions on development policies in the industrial sector centered around public enterprises. 1/ The Beninese representatives emphasized that the Government remained committed to rehabilitating the public enterprise sector, which faced problems arising from inappropriate project design, lack of working capital, overstaffing, managerial deficiencies, and depressed demand resulting from the slowdown of Nigeria's economy. Within the context of a US\$31 million project, financed by IDA among others, the Government has agreed on an Action Program for a sample covering 11 enterprises to be studied by consultants for liquidation or rehabilitation. As a first step toward financial reorganization, the arrears of these enterprises have already been identified, and the modality of settlement is being studied. 2/

The first stage of the project (consisting of the individual diagnosis and audits of the sample enterprises in order to assess their technical, economic, and financial viability) has been completed and enterprises amenable to rehabilitation have been identified. The second stage, which involves the implementation of the actual restructuring, has already started. Of the sample enterprises, three involved in shipping and transit have suspended their operations and are being liquidated. Discussions are currently under way with a view to privatizing three other enterprises, in the areas of agroindustries and importation of consumer goods. Moreover, the monopoly on the importation and distribution of pharmaceutical products has recently been abolished. Outside the sample of enterprises to be rehabilitated, an integrated textile factory was closed in 1986 bringing to three the number of enterprises closed since 1985. Concerning the joint ventures with Nigeria, SAVE (sugar complex) and ONIGBOLO (cement plant), the Beninese representatives said that it was one of the government priorities in the sector to achieve an efficient functioning of the two projects. To this end, the Government was currently holding discussions with the Nigerian Government on the need to provide adequate working capital and agree on new marketing arrangements that would allow both plants to produce at levels closer to their installed capacity.

The Beninese representatives said that while industrial policy would be largely focused on the rehabilitation of the state enterprise sector, in the years ahead, greater emphasis would be given to the promotion of private small- and medium-sized manufacturing enterprises,

1/ There are some 57 state enterprises including mixed enterprises, and government agencies. In 1985, they accounted for three fourths of industrial production, 55 percent of domestic bank credit outstanding to the private sector, and employed approximately 28,000 persons. Financial data available for 28 of the 57 public enterprises show a combined after-tax loss of about CFAF 3 billion on annual sales of CFAF 113 billion in fiscal year 1985, and many enterprises involved in textiles, cement, and distribution show negative net worth.

2/ The enterprises covered by the project account for one third of the sector's revenues and one fifth of its employment.

especially those using local raw materials. To this end, the Government was considering improvements in the Investment Code, as well as the creation of an institution that would study new projects and supervise the various steps of the projects through their implementation. The Beninese representatives indicated that the creation of new enterprises would be a source of much needed employment for new graduates from universities and specialized institutions, particularly as the Government had announced that it could no longer offer automatic employment to such graduates, starting in 1987.

2. Fiscal policies

The 1987 budget initially adopted by the authorities in February was, in the staff's view, unrealistic as it overestimated revenue and underestimated expenditure; it thus significantly understated the prospective overall deficit of the Central Government. Following earlier discussions with the staff, the authorities prepared a revised budget showing the real financing needs of the Government both on the basis of unchanged policies and after the application of a set of measures to alleviate the fiscal situation. The Beninese representatives stressed the importance they attached to the revised budget, as for them it represented the evidence of the willingness of the Government to undertake adjustment measures that could serve as a basis for a Fund-supported program. Consequently, the discussions focused on the revised budget, the proposed measures, and the need for additional measures to further reduce the fiscal imbalance and achieve a sustainable fiscal situation over the medium term.

The revised budget on the basis of unchanged policies showed a decline in the overall deficit on a commitment basis and including grants from the equivalent of 7.1 percent of GDP in 1986 to 6.5 percent in 1987. Excluding grants, the budget showed a decline from the equivalent of 10.4 percent in 1986 to 7.3 percent in 1987. Nevertheless, the budget implied a further accumulation of domestic and external payments arrears related to expenditure of about CFAF 18 billion. This reduction in the deficit was expected to be brought about by a decline of 6 percent in total expenditure and net lending. Total revenue and grants were projected to fall by 6.7 percent, mostly reflecting a quasi-stagnation in fiscal revenue and declining grants. The continued inability of the Government to provide counterpart funds for foreign-financed projects was expected to result in a reduction of 13.9 percent in capital expenditure. Meanwhile, current expenditure was projected to remain practically unchanged; an increase of 5.9 percent in personnel expenditure, involving additional employment of about 4,700 civil servants, was expected to be more than offset by lower interest payments, reflecting the exclusion of the interest payments due in 1987 related to the joint ventures with Nigeria (CFAF 4.7 billion). As a result of the projected level of personnel expenditures, the wage bill was projected to reach practically the same level of that of tax revenue.

The measures proposed by the authorities would achieve a reduction in the overall deficit, on a commitment basis and including grants, equivalent to CFAF 4.7 billion or 1 percent of GDP by generating CFAF 500 million in additional revenue and reducing expenditure by CFAF 4.2 billion. Consequently, the accumulation of expenditure-related arrears would be CFAF 4.7 billion less than without measures and the wage bill would be reduced by 8 percent. The modest additional revenue was expected to be obtained through improved tax administration. The decline in expenditures was expected to result from the application of various measures the most important of which are payment of salaries based on the results of the recently completed census of civil servants and postponement of 50 percent of payments of promotions and advancements. 1/

The staff representatives took the position that while the preparation of a realistic budget on the basis of unchanged policies and the proposal of measures to alleviate the fiscal situation were steps in the right direction, the measures were not strong enough to bring about a significant reduction in the fiscal deficit, consistent with available domestic and foreign financing so as to avoid additional accumulation of arrears. Consequently, the revised budget did not provide sufficient basis for a Fund-supported program in the future. The staff representatives pointed out that the burden of adjustment in countries like Benin, unable to pursue an independent exchange rate policy, would have to fall particularly on the budget, and that, given the size of the financial imbalances and composition of government expenditures, there was a need to reduce expenditure. Of particular importance would be the examination of how to reduce personnel expenditure without compromising the efficiency of the public administration. In this regard, the staff representatives suggested a number of possible measures that could contribute to reducing personnel outlays: (1) issuance of long-term maturity treasury bonds in lieu of 30 percent of cash salaries entailing a 15 percent reduction (CFAF 6.3 billion) in the salary bill in 1987 and a reduction by a similar amount in 1988 if the measure were to be applied effective July 1, 1987; (2) acceleration of the retirement program; (3) limitation of the budgetary allocation for future recruitment to a percentage of the amount paid to civil servants retiring in 1988 and increasing this percentage in future years; and (4) provision of incentives to encourage separation or early retirement, e.g., lump-sum payments to start up small- and medium-sized enterprises. The first of these measures is only temporary while measures with a more permanent impact on the wage bill are being considered.

1/ The other measures consisted of strict enforcement of retirement regulations; reduction by 50 percent of the salaries paid to civil servants on study leave; limited official travel; reduction in the frequency of vacations in Benin of Beninese nationals studying overseas; and reduction of budgetary allocations for water, electricity, and telephone services. To the extent that these allocations cover private consumption of civil servants, there is room for savings.

The Beninese representatives noted that the government undertaking of the census of civil servants and the announcement of the freezing of all recruitment, including the replacement of retirees--to start in 1987--were measures that had been adopted with a view to gradually reducing personnel expenditures. The increase in these expenditures in the 1987 budget only represented the formal incorporation into the payroll of employees who had been working at posts in the public administration in 1986, but had not been taken into account when preparing the budget. The Beninese representatives agreed with the objective of the measures proposed by the mission, but stressed their conviction that they could over time arrive at the same objective by gradually reducing the number of civil servants instead of their wages. While stressing the high social cost involved in reducing the cash payment of salaries that were barely sufficient to cover the cost of living in urban areas, the Beninese representatives recognized that the number of civil servants, which was preliminarily estimated by the census at 57,400, was excessively high and that budgetary resources were insufficient to cover expenditures, as evidenced by the existence of arrears.

The Beninese representatives said that the Government was renewing efforts to increase tax collection and had adopted some of the recommendations made by a Fund technical assistance mission in October 1985. This has entailed the increase of excises on certain goods such as alcohol, tobacco, and hydrocarbons in 1986 and 1987, and the simplification of certain taxes. A review of the structure of the turnover tax was also under way. The Beninese representatives expressed concern at the growing tax fraud and indicated that the Government was intensifying its efforts to improve tax administration with foreign technical assistance. They expected the recent measures to improve the ratio of tax revenue to GDP (11 percent), which was too low with respect to countries with a similar tax base. The Beninese representatives stated that they would study alternative fiscal measures and review those proposed by the Fund to incorporate them in the 1988 fiscal budget.

3. Monetary policies and the banking system

The BCEAO representatives indicated that in 1986 the BCEAO had intensified efforts to ensure that the regulations governing credit refinancing and repatriation of export proceeds were strictly adhered to. In the meantime, overdraft facilities had been suspended and the procedures to grant prior approval of credit (autorisations préalables) strengthened. The staff representatives expressed concern at the precarious situation of the commercial banks and at the apparent loss of confidence in the banking system evidenced by a switch away from deposits into currency. The lack of liquidity has prompted the suspension of credit activities of two of the three deposit money banks as well as the payment of external transfers by the Postal Office System. The BCEAO representatives said that they recognized the key role to be played by the banking system in revitalizing the economy and indicated

that the Government was prepared to take immediate action as soon as the work of the team of experts financed by the World Bank became available. The work will contain an analysis of the current situation of the banking system and recommendations to undertake reforms, including an assessment of the cost involved.

4. Medium-term outlook and the balance of payments

The mission discussed with the authorities Benin's balance of payments prospects for 1987 and the medium term based on a balance of payments scenario for the period 1987-92 (Table 5). This scenario assumes no change in present policies and the exhaustion of the Sémé crude oil reserves at the end of 1991, and it excludes possible disbursements on new commitments of foreign loans not yet contracted, as well as the external debt-service payments related to the joint ventures with Nigeria. Other assumptions concerning exports, imports, and the exchange rate are presented in Appendix I.

The scenario suggests that owing to a weak growth in export earnings during 1987-91 followed by an actual decline in 1992 reflecting the exhaustion of the oil field reserves, the external current account will continue to deteriorate resulting in large financial gaps averaging CFAF 60 billion annually in the early 1990s, in particular, if moratorium interest on arrears were included. Even if the level of disbursements on new commitments had been assumed to remain at the 1987 level of CFAF 25 billion, such financing gaps would remain, and there would likely be a further accumulation of external arrears or a forced compression of imports should foreign suppliers show increasing hesitation to finance these imports.

The Beninese representatives expressed broad agreement with the staff assessment of the medium-term prospects for the balance of payments and indicated that they would intensify efforts aimed at increasing agricultural production for exports and import substitution. They also intended to accelerate the discussions with the Nigerian Government concerning the provision of working capital and the management and marketing arrangements relating to the cement and sugar plants with a view to increasing production to levels close to installed capacity and to generate additional foreign exchange earnings. Further exploration of crude oil was also being considered by the Government. The Beninese representatives emphasized that in preparing the next Development Plan, emphasis would continue to be placed on the agricultural sector and on other areas with a view to achieving a rate of growth at least equal to the population growth and balance of payments viability over the medium term. In the meantime, they would accelerate their actions to solve the financial problems in the cotton and state enterprise sectors as well as with regard to the banking system. They also indicated that they would prepare a realistic budget for 1988, which would include measures aimed at bringing about a

Table 5. Benin: Medium-Term Balance of Payments Scenario,

1987-92: 1/
(In billions of CFA francs)

	1987	1988	1989	1990	1991	1992
Exports, f.o.b.	43.0	48.6	51.7	56.6	60.5	50.2
Of which: crude oil ^{2/}	(10.4)	(12.7)	(13.0)	(14.4)	(14.8)	(--)
cotton ^{2/}	(10.9)	(12.6)	(13.7)	(15.2)	(16.7)	(18.8)
Imports, f.o.b. ^{2/}	-114.0	-119.7	-125.7	-132.0	-138.6	-145.5
Trade balance	-71.0	-71.1	-74.0	-75.4	-78.1	-95.3
Services (net)	-17.9	-19.5	-21.1	-23.1	-25.1	-27.7
Of which: interest payments ^{3/ 4/}	(-6.1)	(-5.6)	(-5.1)	(-4.7)	(-4.6)	(-4.3)
Unrequited transfers (net)	41.5	41.5	41.5	41.5	41.5	41.5
Of which: official	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)
Current account balance	-47.4	-49.1	-53.6	-57.0	-61.7	-81.5
Capital movements (net)	14.5	14.4	13.3	8.2	5.9	3.0
Medium- and long-term ^{5/}	8.1	-7.7	6.2	0.7	-2.0	-5.3
Disbursements	(25.1)	(23.7)	(19.9)	(13.5)	(8.9)	(4.4)
Amortization due ^{4/}	(-17.0)	(-16.0)	(-13.7)	(-12.8)	(-10.9)	(-9.7)
Short-term	6.4	6.7	7.1	7.5	7.9	8.3
Overall balance ^{3/}	-32.9	-34.7	-40.3	-48.8	-55.8	-78.5

Memorandum items:

Debt service payments due (amortization and interest) ^{3/}	23.1	21.6	18.8	17.5	15.5	14.0
Debt service payments due (amortization and interest) related to the Savé and Onigbolo projects ^{3/}	11.8	11.3	10.7	9.3	6.6	--
Change in unpaid moratorium interest on arrears (excluding Savé and Onigbolo)	1.8	2.7	3.3	4.0	5.0	6.1

Sources: Staff estimates and projections.

1/ On the basis of unchanged policies.
2/ Based on crude oil export unit values of US\$16.00 per barrel in 1987, US\$16.75 in 1988, US\$17.25 in 1989, US\$17.75 in 1990, and US\$18.25 in 1991.

3/ Excluding unpaid moratorium interest on arrears.

4/ The items exclude interest and amortization, respectively, related to the Savé and Onigbolo projects.

5/ On the basis of contracted debt as of end-1986.

reduction in the fiscal imbalances to levels that could be financed without the accumulation of new arrears while allowing for the orderly elimination of past arrears.

IV. Staff Appraisal

While Benin's extremely difficult economic and financial situation can be partly explained by factors beyond the control of the authorities, the predominant cause of Benin's current difficulties can be traced to the pursuit over a number of years of inappropriate fiscal and credit policies, coupled with poor administrative and planning mechanisms. In order to address these difficulties, the Beninese authorities have made efforts in various areas.

The Beninese authorities have recognized the need to reduce Benin's vulnerability to fluctuations in the economic activity of neighboring countries by restructuring the economy toward sectors, especially agriculture, that can generate sustained growth. The emphasis on the development of the agricultural and petroleum sectors has proved appropriate, as large increases in cotton and crude oil production have cushioned the adverse impact on secondary and tertiary activities of reduced accessibility to Nigeria's markets during 1983-85 and have contributed to the achievement of positive, albeit low, rates of growth.

The authorities have granted remunerative producer prices and other production incentives to cotton farmers while implementing a policy of gradual removal of input subsidies. As a result, there has been a strong supply response providing an example of the favorable impact of significant production incentives, which needs to be extended to the entire agricultural sector. The staff welcomes the decisive action taken by the authorities to address the present financial difficulties of the cotton sector and urges the financial restructuring of the cotton marketing agency with a view to significantly reducing cotton processing and commercialization costs. The authorities' incentive policies designed to increase and diversify agricultural production need to be accompanied by measures to improve marketing, credit, and storage facilities. The staff considers that ongoing discussions on marketing and financial arrangements with Nigeria on the sugar and cement plants should be accelerated with a view to reaching quick agreement. This is particularly important in view of the near stagnation of crude oil production in the years immediately ahead and the depletion of reserves by end-1991, a prospect that would weaken the balance of payments position over the period.

The staff urges the adoption of a comprehensive adjustment program, with emphasis on fiscal corrective measures. For this program to be effective, it must be accompanied by the restructuring of the banking system and the rehabilitation of the public enterprise sector. The staff commends the authorities for the work done by the National Adjustment Committee to prepare the grounds for negotiating a

Fund-supported adjustment program. The formulation, for the first time in many years, of a fiscal budget showing the financing needs of the Government on the basis of unchanged policies and the proposal of measures designed by the authorities to alleviate the fiscal situation, represent steps in the right direction. However, the proposed measures are insufficient to achieve a significant reduction in the fiscal deficit and would imply a further accumulation of arrears. While the staff agrees that improvements in the tax administration and the adoption of measures recommended by the Fund technical assistance mission may provide increased revenue to reduce further the deficit, these measures will provide only a partial solution toward solving the problem. The staff believes that the greatest contribution in the immediate future to the fiscal adjustment lies on the expenditure side where important decisions must be taken immediately, especially with respect to employment policy. The Government should implement measures aimed at reducing the level of personnel expenditures on a permanent basis. The measures suggested by the staff cannot be considered as a substitute to cope with the issue of the wage bill. The crucial problem is the excessively high number of civil servants, which can no longer be fully or appropriately paid in the present circumstances. The staff shares the concern of the authorities regarding the social cost of any reduction in the wage bill and is prepared to discuss ways aimed at ensuring that the burden on the sectors of the population most affected by the required measures be minimized.

The staff commends the progress made by the authorities in the process of rehabilitating the state enterprise sector, under the World Bank-financed project, as well as the decision to reduce the number of products subject to price controls. A scheme for settling the arrears identified by the recently completed technical work under the project, should be worked out promptly. The search for potential foreign and domestic investors for privatization should be intensified and the program of action agreed under the project should be extended to cover an additional number of enterprises.

As to the reform of the banking system, the staff welcomes the Government's intention to take decisive action on the basis of a number of ongoing studies. The staff underscores the importance of establishing on an urgent basis a timetable for action. The efforts by the BCEAO to strictly enforce the regulations governing credit refinancing and strengthen procedures to grant prior approval of credit (autorisations préalables) constitute a crucial ingredient for a successful reform of the banking system and the concurrent re-establishment of confidence in the system.

Staff projections of the balance of payments over the medium term suggest bleak prospects unless prompt and wide-ranging measures are adopted. Although the overall adjustment process would be borne mainly by fiscal policy, due to the exchange rate arrangement, the overall reduction in government expenditure would have a limited impact on external adjustment, as only part of that expenditure represents imports

of goods and services acquired by the Government. Consequently, additional measures would be needed to facilitate the external adjustment. In addition to the efforts to be made to accelerate production of export crops, the authorities should be more selective in the choice of projects, undertaking only those that are more likely to have an immediate and strong favorable impact on exports, import substitution, growth, and employment. The staff urges the authorities to proceed to prepare promptly, with assistance from the World Bank, the development and investment program for the period 1988-91. Increased efforts should also be made to attract direct foreign investment and, in view of the country's unsustainable external debt service burden, the authorities should avoid contracting new debt, except on highly concessional terms. The adoption of a comprehensive program would provide the right signal to the international donor community and elicit financial support, including the rescheduling of the outstanding debt and regularization of arrears.

Benin has a weak economic and financial data base. The staff urges the authorities to act more quickly to improve it, particularly in the areas of balance of payments and government financial operations. A solid data base is crucial to facilitate the Government's design, implementation, and monitoring of the necessary adjustment policies.

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

Medium-Term Balance of Payments Projections: Assumption

The medium-term balance of payments projections are based on the most recent WEO projections of commodities prices and exchange rates.

1. Cotton prices are projected to decline by 5 percent in 1987, and to increase by 7 percent per annum on average during the period 1988-92. Exports volumes are projected to increase by 37 percent to 51,300 tons in 1987 declining to 45,000 tons in 1988 before rising at an average rate of 3.5 percent during 1989-92.
2. Crude oil prices are assumed to grow from US\$11 for barrel in 1986 to US\$16 in 1987 and to increase thereafter at an annual average rate of 2.9 percent reaching US\$ 18.25 for barrel by 1992. Official projections assume that output will grow from 1.8 million barrels in 1986 to 2.57 million barrels per annum in 1988-1989 and remain at 2.70 million barrels per annum in 1990-1991.
3. Other export earnings including re-exports are projected to decline by about 20 percent in 1987 and to grow thereafter at an annual rate of 8 percent in nominal terms.
4. The US\$ dollar CFA/franc rate is assumed at CFAF 300/\$ throughout the period.
5. Imports are projected to rise in volume by an average of 0.7 percent over the period 1987-92.

BENIN--Relations with the Fund (concluded)

VIII. Last Article IV Consultation

The last Article IV consultation discussions with Benin were held in Cotonou during the period November 27-December 10, 1985. The staff report (SM/86/28) and the paper on recent economic developments (SM/86/41) were discussed by the Executive Board on April 23, 1986. The decision adopted was as follows:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Benin, in the light of the 1985 Article IV consultation with Benin, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Benin continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Benin is on the standard twelve-month consultation cycle.

IX. Technical Assistance on Other Staff Missions

Staff missions to initiate discussions on the possible use of Fund resources visited Cotonou during the periods March 18-31, 1985 and May 28-June 8, 1985; discussions were held in Washington with a Beninese delegation during the period September 11-12, 1985. The Bureau of Statistics has provided short-term technical assistance on government finance statistics (December 1-15, 1982), and balance of payments and general economic statistics (November 21-December 4, 1986). There was a technical assistance visit to Cotonou from CBD during the period September 10-13, 1985 to assess the problems of the banking system. There was a technical assistance mission from the Fiscal Affairs Department to review the tax system (October 13-November 1, 1985) and another to provide technical assistance in the areas of payments arrears and taxation (August 4-22, 1986).

BENIN--Relations with the World Bank Group
(As of May 31, 1987)

Since becoming a member of the World Bank Group in 1963, Benin has received 28 IDA credits, including three supplementary credits, totaling US\$275.93 million, of which about US\$12.0 million has been repaid. The list of projects approved by the Board since 1978 is given below. For the period FY87-91, the World Bank is now proposing a lending program amounting to US\$140 million. More than two-thirds of this amount would be devoted to supporting a program of adjustments and strengthening output performance (rural development and the rehabilitation of the public enterprise sector).

Table 1. Status of World Bank Group Lending Operations

(In millions of U.S. dollars; as of May 31, 1987)

Year	Purpose		Undisbursed
	Thirteen credits fully disbursed	85.83	--
1980	Industrial development	10.00	4.68
1981	Borgou province rural development	20.00	4.96
1981	Fourth highway	11.30	0.85
1981	Cotonou water sanitation	5.00	0.14
1982	Technical assistance in petroleum sector	8.00	0.04
1982	Second education	14.00	3.22
1983	Zou rural development	20.00	8.75
1984	Third feeder roads	12.00	3.34
1984	Forestry	5.40	3.80
1984	Sémé oil field development II	18.00	18.02
1984	Nangbeto hydroelectric <u>1/</u>	15.00	10.41
1985	Technical assistance project	5.00	5.54
1986	Borgou province rural development supplement	1.90	1.05
1986	Second water supply	10.00	11.06
1986	Public enterprise sector rehabilitation	15.00	16.47
1987	Transport infrastructure rehabilitation and maintenance	19.50	19.56
	Total	<u>275.93</u>	<u>111.89</u>
	Of which: amount repaid	(12.06)	
	Total outstanding	263.87	

Source: World Bank.

1/ Benin's portion of a joint project with Togo.

BENIN--Relations with the World Bank Group (concluded)

Table 2. Benin: World Bank Loans and Debt Service, 1982-86 1/

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986	1987
Loans						
Disbursements	10.0	16.7	14.9	19.3	24.1	20.0
Amortization	0.1	0.2	0.3	0.4	0.4	0.5
Interest payments	0.5	0.5	0.8	1.3	1.2	1.3

Source: World Bank.

1/ All loans received from the World Bank are IDA credits.

BENIN--Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

At present, comprehensive national accounts are not compiled on a systematic or timely basis. Also, there is as yet no official consumer or wholesale price index.

A technical assistance mission in the field of general economic statistics visited Benin during November 19-December 2, 1986. A report containing the mission's recommendations has been sent to the authorities.

b. Government finance

No government finance data are published in IFS. Detailed central government data are available in the GFS Yearbook for the following tables for years through 1980 only and even for some of these years the data are partial: Revenue and Grants, Expenditure by Function, Expenditure and Lending minus Repayments by Economic Type, Financing by Type of Debt Holder and Financing by Type of Debt Instrument. There is an urgent need to bring the presentation of the pages for Benin in the GFS Yearbook up to date, and to compile data for lending minus repayments and capital expenditure by function.

c. Monetary accounts

A technical assistance mission to BCEAO headquarters in May 1985 recommended some improvements in the compilation of money and banking statistics in Benin; these included the determination of currency outside banks, the sectorization of the banking system's claims on the economy, the revaluation procedures used by banks, and the revision of banks' reporting procedures in order to obtain more reliable data on the banking sector. Some of the mission's recommendations have already been implemented. However, implementation of several of the remaining recommendations would be needed to bring the monetary statistics of Benin into accord with the standard IFS presentation.

d. Balance of payments

Benin's balance of payments data are uncurrent; the latest period for which the Bureau of Statistics has comprehensive data is 1979. This, as well as some conceptual and coverage deficiencies, was reviewed by a technical assistance mission in November 1986. The mission examined the methodology underlying the collection and compilation of data and made recommendations for improvement in the areas of: (a) external trade; (b) estimates of trade credits; (c) the recording of transactions relating to external debt, i.e., drawings scheduled interest payments, and principal repayments, and accumulation of arrears

BENIN--Statistical Issues (concluded)

on interest and principal; and (d) collection of data through questionnaires. A report containing the mission's recommendations has been sent to the authorities.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Benin in the May 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque Centrale des Etats de l'Afrique de l'Ouest, which during the past year have been provided on a timely basis. However, the coverage and currentness of the data are inadequate.

Status of IFS Data

		<u>Latest Data in July 1987 IFS</u>
Real Sector	- National Accounts	1983
	- Prices: Industrial Share Prices	n.a.
	Consumer Prices	n.a.
	- Production: Manufacturing Prod.	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	January 1987
	- Deposit Money Banks	December 1986
	- Other Financial Institutions: Savings Bank Deposits	Q4 1985
Interest Rates	- Discount Rate	January 1987
	- Bank Lending/Deposit Rates	January 1987
	- Bond Yields	n.a.
External Sector	- Merchandise Trade: Values	1982 ^{1/}
	Unit Values	n.a.
	- Balance of Payments	n.a.
	- International Reserves	April 1987
	- Exchange Rates	May 1987

^{1/} Export and import aggregates derived from DOTS are published through Q2 1986.

BENIN--Basic Data (continued)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Central government finance 2/</u>	<u>(In billions of CFA francs)</u>				
Revenue	63.4	51.5	46.4	59.5	58.2
Grants	21.2	21.0	24.0	21.3	15.6
Total expenditure and net lending	103.9	112.1	120.9	111.6	108.4
Of which: current expenditure	(57.2)	(66.6)	(78.0)	(82.9)	(78.9)
capital expenditure	(44.3)	(44.1)	(41.7)	(27.0)	(27.4)
Overall surplus/deficit (-)					
Commitment basis					
Including grants	-19.3	-39.6	-50.5	-30.8	-34.6
Excluding grants	-40.5	-60.6	-74.5	-52.1	-50.2
Change in expenditure-related arrears					
(decrease -)	2.6	19.6	30.9	20.3	23.6
Overall surplus/deficit (-) (cash basis)	-16.7	-20.0	-19.6	-10.5	-11.0
Financing	16.7	20.0	19.6	10.5	11.0
External borrowing	7.9	10.7	11.3	13.0	14.7
Domestic sources	8.8	9.4	8.3	-2.5	-3.7
Of which: banking system	(5.6)	(11.8)	(15.7)	(-8.6)	(2.3)
<u>Money and credit</u>	<u>(End of period)</u>				
Net foreign assets	-14.2	-28.4	-24.8	-31.0	-29.6
Net domestic assets	115.1	132.7	139.5	146.8	142.6
Net claims on Government	-13.4	-1.6	14.1	5.5	7.8
Net claims on private sector	127.5	145.9	141.1	145.5	132.6
Of which: financed by BCEAO	(34.9)	(39.3)	(40.0)	(42.4)	(44.5)
Money and quasi-money	97.7	100.5	110.6	111.3	109.1
<u>Balance of payments 3/</u>	<u>(In millions of SDRs)</u>				
Exports, f.o.b.	113.0	111.5	145.1	179.1	111.2
Imports, f.o.b.	-382.9	-245.0	-179.7	-263.3	-280.1
Trade balance	-269.9	-133.5	-34.6	-84.2	-168.9
Services (net)	-70.3	-65.1	-44.9	-53.5	-57.8
Transfers (net)	110.8	73.6	74.8	89.9	102.6
Current account balance	-229.3	-125.0	-4.7	-47.8	-124.1

BENIN--Basic Data (concluded)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Balance of payments</u> 3/	(In millions of SDRs)				
Medium- and long-term capital (net)	190.2	74.7	-10.9	-26.0	-8.4
Disbursements	(200.7)	(108.1)	(38.2)	(36.9)	(69.5)
Amortization	(-10.5)	(-33.4)	(-49.1)	(-62.9)	(-77.8)
Short-term capital	25.1	-31.9	-4.5	16.4	20.9
Errors and omissions	-39.7	5.1	-24.9	10.5	16.4
Overall surplus/deficit	-53.8	-77.1	-45.0	-46.9	-95.2
Change in official net foreign assets (increase -) 4/	48.8	39.3	0.7	6.4	1.0
Increase in arrears	5.0	37.8	44.3	40.5	94.2
<u>Official foreign reserves</u> 3/	(End of period)				
Gross reserves	4.5	3.5	2.5	3.7	3.2
Net reserves	-6.6	-42.3	-40.0	-54.3	-58.1
<u>Public external debt</u> 3/	(In millions of SDRs)				
Disbursed and outstanding (end of period)	516.7	592.7	596.7	617.7	634.6
In percent of GDP	56.4	69.4	67.2	55.6	51.8
Debt service ratio (scheduled payments as percent of exports of goods and nonfactor services)	12.7	40.0	40.8	36.9	63.0
Arrears (end of period)	21.6	53.6	92.0	148.7	253.3
	(CFA francs per SDR)				
End of period	370.9	437.0	470.1	415.3	394.8
Period average	362.5	407.4	448.0	456.2	406.3

1/ Based on World Bank data; unless otherwise indicated, estimates are related to 1982-85.

2/ Consolidated operations of the Treasury, the Caisse Autonome d'Amortissement (CAA), the Fonds National d'Investissement (FNI), the Fonds Routier, and the Fonds Autonome de Soutien; and extrabudgetary expenditure financed directly from abroad.

3/ Differences between flow and stock figures are due to valuation adjustments.

4/ Includes valuation changes.

