EXECUTIVE BOARD MEETING

EBS/18/102

November 21, 2018

To: Members of the Executive Board

From: The Secretary

Subject: **Benin—Third Review Under the Extended Credit Facility Arrangement and Request for Waiver of Nonobservance of Performance Criterion**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, December 5, 2018**
Proposed Decision:	Pages 15–16
Publication:	Yes*
Questions:	Mr. Eyraud, AFR (ext. 35684) Ms. Diallo, AFR (ext. 37541) Ms. Mugnier, AFR (ext. 34242) Mr. Sy, FAD (ext. 38657)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Monday, December 3, 2018—WTO After Board Consideration—African Development Bank, Islamic Development Bank, West African Economic and Monetary Union

***The authorities have indicated that they consent to the Fund's publication of this paper**

INTERNATIONAL MONETARY FUND

BENIN

November 19, 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

KEY ISSUES

Context. The growth momentum continues, driven by strong port activity, high cotton production, and the recovery of the Nigerian economy. The 2019 budget will bring the commitment-based fiscal deficit below the WAEMU convergence criterion of 3 percent of GDP next year. Program implementation remains satisfactory with all end-June 2018 quantitative performance criteria (QPCs) met; but the continuous QPC on non-accumulation of new domestic arrears was breached over March-June due to an institutional oversight.

Program Policies.

- Reduce the fiscal deficit by strengthening domestic revenue mobilization and enhancing the efficiency of public spending.
- Promote strong and inclusive growth by continuing to enhance the business environment and ensuring that the growth dividend is shared with the poor.
- Pursue a prudent borrowing policy while strengthening public debt management to preserve debt sustainability.
- Continue to push the reform agenda aimed at improving governance and strengthening control and anti-corruption frameworks.

Staff view. Staff supports the authorities' request for completion of the third review of the ECF-supported program as well as the request for a waiver pertaining to the nonobservance of the criterion on the non-accumulation of new domestic arrears. Staff supports the addition of two structural benchmarks (SBs) related to the elimination of selected tax expenditures in the 2019 budget and the conduct of an audit on the stock of past debt due to domestic suppliers. Completion of this review will release a disbursement equivalent to SDR 15.917 million. The Memorandum of Economic and Financial Policies (MEFP) sets out appropriate policies to achieve the program's objectives.

Approved By
Dominique Desruelle (AFR) and Mary Goodman (SPR)

Discussions on the Third Review under the Extended Credit Facility (ECF) Arrangement were held in Cotonou during October 18-29. The mission team comprised Messrs. Luc Eyraud (head) and Torsten Wezel, Mses. Aissatou Diallo and Alice Mugnier (all AFR), Mr. Mouhamadou Sy (FAD), Mr. Karim Barhoumi (Resident Representative), and Mr. Joseph Houessou (Economist at the Res. Rep. Office). Mr. Sidi Bouna (OED) participated in the policy discussions. The mission met with President Patrice Talon; Mr. Abdoulaye Bio Tchané, Minister of State of Planning and Development; Mr. Romuald Wadagni, Minister of Economy and Finance; Mr. José Didier Tonato, Minister of Living Environment and Sustainable Development; Mr. Johannes Dagnon, Special Advisor to the President; Mr. Alain Komaclo, BCEAO National Director; and senior economic and financial officials. The mission held a press conference. Mses. Christelle Ndome-Yandun and Nadia Margevich provided assistance for the preparation of this report.

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BACKGROUND

1. The ECF-supported program is on track. The program is well aligned with the 2016-21 Government's Action Program (GAP), which ensures strong ownership from the authorities. On June 29, 2018, the Executive Board completed the second review of the three-year arrangement with Benin under the Extended Credit Facility (ECF). During the first two reviews, all quantitative performance criteria (QPCs) and structural benchmarks (SBs) were met.

2. The inclusive growth agenda remains vigorous. After becoming a full participant in the G20 Compact with Africa (CwA) initiative in October 2017, the authorities developed and started implementing an action plan to bolster private sector financing of the GAP. In collaboration with IMF staff, the authorities also carried out a costing of the spending needs to reach the Sustainable Development Goals (SDGs), which will provide inputs to their National Development Plan (Annex I).

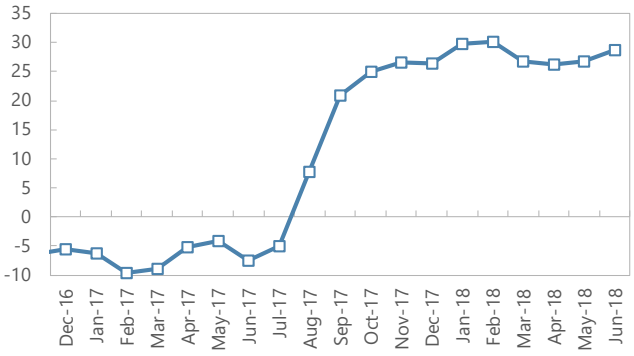
3. The authorities have also made progress on the governance front, despite a setback. Last July, a revision of the Constitution aimed at fostering transparency and accountability by public office holders was rejected by Parliament. However, in September, Parliament approved a new electoral code, which mandates the disclosure of assets and income by election candidates and political parties. An economic crimes and terrorism court was established in August 2018 to fight corruption and money laundering.

RECENT DEVELOPMENTS

Benin continues to record elevated growth in a context of low inflation. The first half of 2018 saw another budget overperformance, driven by higher-than-expected nontax revenues.

4. The growth momentum continues. High public investment, record cotton production and processing, as well as the recovery of the Nigerian economy were the main drivers of 2017 growth, which stood at 5.8 percent. For 2018, preliminary estimates indicate that growth will further accelerate to 6.5 percent, mainly because of stronger port activity (Text Figure 1).[1] Inflation turned slightly positive in 2017 (0.1 percent), driven by food and petroleum prices, and continued to increase in the first half of 2018. It is projected at 1.0 percent for 2018. The current

Text Figure 1. Goods Exchanged at the Cotonou Port
(change in 6-mth moving average)



Sources: Beninese authorities and IMF staff calculations.

[1] Several reforms of the port management have been undertaken in the past years under the first compact of the Millennium Account Challenge, including the recent delegation of the management to the Antwerp port.

account deficit peaked at 9.9 per cent of GDP in 2017, as a result of high investment-related imports. The rise in world oil prices has not had a material impact on Benin's external position, because most of Benin's fuel is imported from Nigeria, where it is highly subsidized.

5. Fiscal outturns at end-June 2018 were in line with the program. Over the first semester, the cumulative fiscal deficit (including grants) was contained at CFAF 129.3 billion, well below the level initially foreseen (FCAF 183.9 billion).[2] Total revenue reached CFAF 475.1 billion, compared to a target of CFAF 445.5 billion under the program. However, this outcome conceals persistent shortfalls in customs and tax revenues, which underperformed relative to targets by respectively CFAF 5.6 billion and CFAF 20.6 billion. Meanwhile, non-tax revenue overperformed by CFAF 55.7 billion due to high royalty payments by mobile phone companies. Data for the third quarter of 2018 suggest that tax revenues have picked up (growing at 10 percent year on year), while the execution of expenditure (both capital and current) is in line with the budget plan. Nontax revenues have continued to perform strongly in the third quarter and additional royalty payments are expected for December. Therefore, the end-December 2018 fiscal targets of the program (total revenues and fiscal balance) seem on course to be met.

6. Financial soundness indicators have shown improvements in 2017 despite sector-wide vulnerabilities.[3] Bank capitalization increased significantly last year, with the capital adequacy ratio rising from 9.5 percent in end-2016 to 12.4 percent at end-2017 (Table 9). Profitability indicators are not yet available for 2017, but preliminary information collected by the BCEAO suggests that profitability improved after two years of poor performance.[4] However, non-performing loans (NPL) remained elevated, standing at 19.5 percent of total loans at end-2017 (from 21.4 percent one year earlier). Liquidity—measured with the ratio of total loans to total deposits—declined last year. In late 2017, the government chose to acquire a small bank with operational and governance issues from its shareholders; the authorities are in the process of designing a restructuring plan to restore its long-term viability (MEFP¶38-39, and paragraph 23).

OUTLOOK AND RISKS

The medium-term outlook remains favorable, supported by sound macroeconomic and structural policies.

7. Medium-term prospects are relatively strong. Growth is projected at 6.5 percent in 2019, and should remain elevated in the following years, because of high agriculture production and port

[2] Outturns are compared with program targets set for the 2018 budget in the report EBS/17/109.

[3] Data for the first half of 2018 was not available at the time of the mission. Staff noted that the lack of timely data on bank balance sheets and financial soundness indicators presented challenges to monitor financial sector developments.

[4] In 2015-16, the banking system as a whole (including about half of the banks) reported losses, partly because of the recession in Nigeria. Structural factors also hamper bank profitability in Benin, such as the high cost of deposits, intense competition squeezing margins, and the cost of provisions due to high NPLs.

activity, the lagged effect of the public investment scaling-up, and higher external demand from Nigeria, Benin's main trading partner. Inflation is expected to stay below the WAEMU 3 percent limit in the coming years. Fiscal consolidation will maintain the budget deficit below the WAEMU criterion of 3 percent of GDP. The current account balance is expected to improve from 2018, driven by strong exports and the public investment scaling-down.

8. Risks. In the short term, possible spending pressures from the March 2019 Parliamentary elections may disrupt consolidation plans. A delay in the recovery of Nigeria would weaken Benin's exports, fiscal position, and growth. In the medium term, the main risks relate to growth and fiscal sustainability (see Risk Assessment Matrix in Annex II). On growth, private sector development may be hindered by difficulties to attract foreign investors and lingering weaknesses of the business environment. On sustainability, fiscal consolidation may be hard to maintain if revenue mobilization efforts fail to generate substantial gains—for instance, due to partial reforms or capacity constraints. Although borrowing conditions on the WAEMU financial market have eased substantially since the second quarter of 2018, the risk of tightening of financial conditions on domestic and international markets continues to be elevated in the medium-term; it could translate into higher debt service costs for the government.

POLICY DISCUSSIONS

Discussions focused on (i) the main parameters of the 2019 budget and domestic revenue mobilization efforts, (ii) measures to promote high and inclusive growth, and enhance governance, and (iii) the soundness of the financial sector.

A. Maintaining the Course of Fiscal Consolidation in 2019

9. The 2019 budget aims at bringing the fiscal deficit (commitment-based) below 3 percent of GDP. The budget, which is fully aligned with the program targets, will ensure compliance with the WAEMU deficit criterion. The fiscal deficit is expected to decrease by 2 percent of GDP next year, with half of the decline coming from the scaling down of public investment. Several measures are being taken to rationalize the wage bill (Box 1). Priority social expenditures (PSE), which are a key objective for the authorities, are planned to increase by 8 ½ percent in 2019 (in line with nominal GDP growth), despite a broadly constant central government budget in nominal terms.[5]

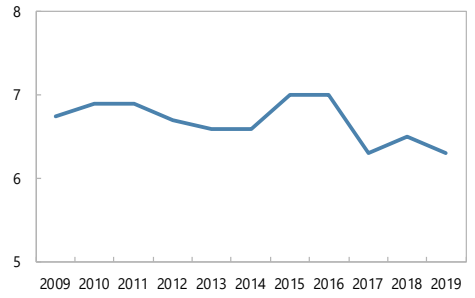
10. The budget foresees an ambitious effort to mobilize tax revenues. The budget will contribute to reshape the revenue mobilization strategy, by reducing the reliance on one-off nontax revenues and prioritizing durable base-broadening tax measures (Text Table 1 and MEFP¶24). Taxes are expected to increase by 1 ½ percent of GDP in 2019, out of which 1.2 percent of GDP will come from the elimination of tax expenditures and 0.3 percent of GDP from other tax measures (see Annex III).

[5] See definition of PSE in the Technical Memorandum of Understanding.

Box 1. Public Wage Bill Management in Benin

After several years of fast increase between 2008 and 2016, the authorities are taking steps to contain current expenditure in order to create space for higher public investment and pro-poor spending. Since 2016, the wage bill has been rationalized without reducing the number of civil servants or lowering their base salary. Key measures include: (i) a biometric census of civilian and military servants which identified 1355 ghost workers in 2016 (now removed from the payroll); (ii) the bancarization[6] of payments, to prevent the risk of fraud; and (iii) the elimination of certain non-wage benefits (MEFP ¶ 27). For 2019 alone, these measures are expected to save about half a percent of GDP. The authorities have decided to allocate half of these saving to pay increases, especially in the education and health sectors, to honor the commitments taken by previous governments. Overall, the wage bill is expected to decline from 6.5 to 6.3 percent of GDP in 2019—a level well below the averages of low-income developing countries (7.3 percent of GDP) and Sub-Saharan Africa (8.1 percent of GDP)[7] (See figure above).

Benin: Wage Bill, 2009–19
(percent of GDP)



Sources: World Economic Outlook and IMF staff calculations.

40 percent of the recorded tax expenditures of the tax code are planned to be eliminated from the beginning of next year. Staff strongly supports this approach, which will help raise more resources for the SDGs, make the tax system fairer (by reducing exemptions), strengthen the ability to service public debt, and contribute to better governance.[8] The authorities are committed to adopting the tax package by end-year (SB) and will also better control the tax exemptions provided under special investment regimes (SB).

Text Table 1. Benin: Sources of Revenue Mobilization, 2017-19

	2017	2018	2019
	Act.	Est.	Prog.
Total revenue[1]	17.5	17.7	17.7
Tax revenue	13.2	13.4	14.9
Tax on international trade	5.9	6.0	6.7
Direct and indirect taxes	7.4	7.4	8.2
Nontax revenue	4.3	4.2	2.8

[1] Excluding grants

Sources: Beninese authorities and IMF staff calculations.

[6] The salaries of civil servants are now transferred directly to the single bank account of each beneficiary, replacing the previous system where salaries were paid in cash at the counters of the Treasury or private banks.

[7] Both the low-income developing country and Sub-Saharan Africa country averages are computed for 2015, which is the latest year available in the IMF cross-country database.

[8] Tax expenditures reduce the transparency of the tax system, creating potential risks of clientelism and unfair discretion in the attribution of the exemptions.

11. In case revenues fall short of expectations next year, the authorities are ready to take offsetting measures to keep the deficit on target. The ambitious tax package is a beneficial and necessary reform, but it creates some uncertainty, since the yield of new measures is always difficult to quantify, and some measures may face resistance from the general public and the business community. Staff advised the authorities to closely monitor the evolution of revenues next year and be ready to slow down the execution of the capital budget in case of revenue shortfalls. The authorities agreed with the proposed strategy (MEFP¶26).

B. Preserving Public Debt Sustainability

12. Benin's updated Debt Sustainability Analysis (DSA) confirms the moderate risk of debt distress (see 2018 DSA report). Total public debt increased from 30.5 percent in 2014 to 54.4 percent in 2017, driven mainly by domestic debt, which tripled as a share of GDP over the period. The debt ratio is expected to start declining from 2019.[9] Ensuring that debt remains on a declining path afterwards will require strict adherence to the medium-term fiscal consolidation plan. Keeping the fiscal deficit below 3 percent of GDP, in line with the WAEMU criterion, will also help mitigate the risk of debt distress.[10]

13. Enhanced debt management is key for debt sustainability. In the area of short-term debt and cash management, the main priorities are to accelerate the transition to the treasury single account, improve the quality of the cash flows forecasts, and match short-term debt instruments with liquidity needs, in line with the recommendations of the March 2018 IMF Technical Assistance mission. These efforts should mitigate the risk of accumulating new arrears. In the area of medium-term debt management, the mission recommends that the authorities pursue their efforts to lengthen the average debt maturity and reduce interest costs. The debt reprofiling operation, conducted in October 2018, which financed the buyback of costly and short-maturity domestic debt through a new external loan at better financing conditions, is a step in the right direction (see 2018 DSA report and MEFP ¶13). The authorities plan to update their debt strategy document next year in order to better integrate all these objectives (MEFP ¶29).

14. Given that the implementation of the GAP will accelerate in the coming years, the impact of key infrastructure projects on debt sustainability will need to be carefully assessed and monitored. About 60 percent of the GAP funding is expected to come from the private sector, mainly in the form of Public-Private Partnerships (PPPs) (IMF Country Report No. 17/100). While the involvement of the private sector is essential to achieving the development objectives of the GAP,

[9] The authorities are conducting an audit of the unpaid debt to suppliers incurred by previous governments (SB). Certified arrears identified as part of the audit will be recorded in 2019 as government debt. However, the upward revision is likely to be small, given that the total amount of claims being audited amounts to 0.9 percent of GDP (see discussion in the 2018 DSA report).

[10] The program anchor, established in IMF Country Report No. 17/100, is to limit the debt ratio of the non-financial public sector below 50 percent of GDP in net present value. It establishes a cushion relative to the 56 percent of GDP threshold beyond which the debt distress risk for Benin is considered to be elevated.

fiscal risks arising from PPPs should be carefully assessed and monitored. During the mission, the authorities informed staff of their preliminary exchanges with the Chinese government to build a new international airport, which would be under private management. At this stage, the cost, financing structure, and calendar of the project are still at an early stage of discussion. When the main parameters of the project are fleshed out next year, the authorities will consult with staff to ensure that the project is well reflected in fiscal accounts and does not compromise debt sustainability (MEFP¶33).

C. Sustaining High and Inclusive Growth

15. Sustaining high growth will require greater participation of the private sector. Benin's economic growth has recovered since 2016, partly because of the public investment scaling-up. With fiscal consolidation underway, the private sector will have to take over as the main growth engine in the next years. Recent initiatives, such as the participation of Benin in the G20 CwA or the enactment of the new PPP law, have paved the way for further private sector participation, but challenges remain, as discussed below.

16. Continued improvement in the business environment is crucial for private sector development. Staff welcomes recent reforms introduced to improve the business climate, including the new investment code, the new labor legislation, and the one-stop-shop to create enterprises, which could help strengthen governance (MEFP ¶ 34-37). Regarding access to electricity, which is a key impediment to economic activity in Benin, the authorities have increased total (domestic and imported) capacity by almost 60 percent between 2015 and 2017. They are also in the process of opening the production sector to competition. Nonetheless, structural problems still need to be addressed, in particular inefficiencies in the operation of the electricity network (reflected in high losses between the electricity delivered into the transmission and distribution grids and the energy billed to customers) and financial difficulties of the state-owned distribution company.

17. Making growth more inclusive is another priority of the government. Despite solid macroeconomic performance, poverty has continued to increase, pointing to difficulties in sharing the growth benefits broadly among the population.[11] The recent costing exercise of the SDGs shows important gaps in the areas of health and education (Appendix I). In 2019, the government will start implementing the pilot phase of its universal health insurance system, called ARCH (MEFP ¶ 28). The system will become completely operational in 2020-21. Staff stressed the importance of ensuring that the new scheme be fully financed and supported by new revenue streams and a prudent calculation of the premiums.[12] Staff also suggested that targeted transfers could be considered to

[11] The poverty rate (national definition) was estimated at 40 percent of the population in 2015, up from 36 percent in 2011.

[12] The budgetary cost of the pilot phase is expected to be minimal (0.05 percent of GDP in 2019), since it will be tested on a small sample of the population. Starting from 2020, the health insurance system will be open to the entire population. It is expected to be self-financed, except for poor populations who will benefit from a public subsidy to cover their insurance premium (equivalent to 0.5 percent of GDP when the system is fully operational). The authorities are in the process of identifying and calibrating new taxes to cover this cost. Studies about the financing of the system are being conducted with the assistance of USAID and the World Bank.

reinforce the redistributive component of fiscal policy. The authorities' view is that ARCH already includes a social assistance component (with the government subsidizing the insurance premium of the poor) and they may consider establishing a cash transfer system at a later stage, once health insurance is extended to the whole population.

18. The financial sector should play a greater role in supporting economic growth and fostering financial inclusion. Banks are heavily exposed to the sovereign, given the high yield of government securities. The small size of the formal economy limits lending to the private sector, results in high credit concentration, and leads to strong competition for funding on a limited number of depositors. Another impediment to credit expansion is the need to deal with the large stock of non-performing loans. Finally, the large number of unauthorized microfinance institutions (MFIs) continues to pose risks.

19. To raise bank financing to the private sector, persistent constraints on credit growth will need to be remedied. The Beninese authorities and the regional bank supervisor are already taking a wide range of measures to help banks better recognize and manage credit risk, including by establishing a fully operational credit bureau (SB); creating new commercial courts for foreclosure; and facilitating the issuance of real estate titles that can be used as collateral (MEFP ¶ 18-21). Further efforts could focus on giving electronic access to collateral registries; improving the quality of the credit report database; formalizing and adding as clients more small and medium-sized enterprises; and better enforcing the framework for supervision and licensing of MFIs (SB).

D. Enhancing Governance and Fighting Corruption

20. Governance indicators point to continuous progress in fighting corruption. The improvement is reflected in several indicators, such as the Transparency International Corruption Perception Index and the Worldwide Governance Indicator.[13] Last July, Benin's Parliament passed an anti-money laundering and combatting the financing of terrorism (AML/CFT) law, which is a positive move to strengthen the domestic framework.

21. Enhancing pubic financial management (PFM) processes could have direct and quick payoffs on governance. In many low-income countries, PFM weaknesses facilitate and create opportunities for fraudulent behaviors; they also distort the allocation of public funds away from priority sectors. Benin could initially target two key areas:

- *Improve capital project selection.* Public investment in Benin suffers from low efficiency (below the WAEMU and SSA average scores). The October 2017 PIMA mission revealed deficiencies in the selection of projects—lack of transparency and no systemic use of selection criteria.[14] Staff urged the authorities to apply and publish the selection criteria, improve the costing process,

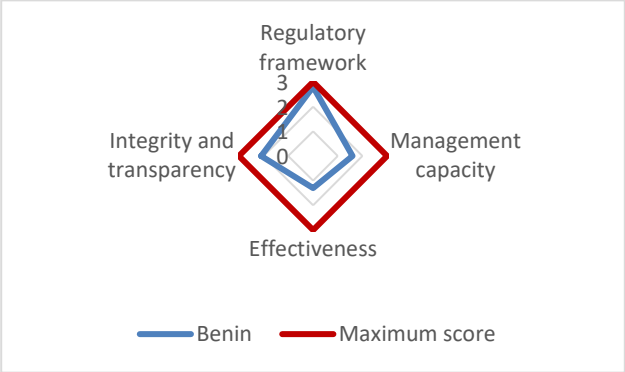
[13] These indicators should be interpreted with caution since their methodology generates margins of error for each governance estimate and they are based on surveys of perceptions by enterprises, citizens, and experts. Estimates reflect the relative, not the absolute, performance of the country.

[14] The main findings of the PIMA mission were summarized in IMF Country Report No.18/217 (Box 2 and Annex II).

and require systematic feasibility studies. The authorities agreed with this assessment and noted that they have established a fund to finance feasibility studies for public investment projects since 2017.

- *Ensure that public procurement is conducted according to the law.* Although the framework for public procurement is relatively exhaustive and up-to-date, it seems that its implementation is not always effective (Text Figure 2). This is partly because the public authority in charge of managing procurement does not have reliable statistics on public tenders and cannot effectively control the number of no-bid contacts. The mission called for a stronger enforcement and control of the public procurement system. The authorities highlighted that the recent appointment of representatives of the procurement agency in line ministries would help better implement the law. They are also assessing the quality of the information system with a view to improving it.

Text Figure 2. Benin: Public Procurement Assessment
(Aggerate scores across pillars)



Sources: Benin-PEMFAR by the World Bank, June 2015

22. Anti-corruption and AML/CFT regimes could also be strengthened and better enforced. There is scope to reinforce the effectiveness of the national agencies responsible for accountability and combatting corruption by improving their access to information, staffing, and budget. Staff encouraged the authorities to bring their legal anti-corruption framework in line with the United Nations Convention against Corruption and hasten preparations for the February 2019 AML/CFT assessment by the Inter-Governmental Action against Money Laundering in West Africa. It also encouraged the authorities to take steps to make the asset declaration regime a meaningful tool in the detection of illicit enrichment of high level officials, by bringing the necessary legislative changes to clarify the scope of the regime and allow for the publication of the declarations for top officials; conducting effective verifications; and sanctioning non-compliance. The authorities agreed with the need to keep enhancing the governance framework, but noted that the immediate priority should be to reinforce internal control and audit bodies within ministries and public agencies (MEFP ¶ 14).

OTHER ISSUES

23. Restructuring of the acquired small bank. The authorities confirmed that the purchasing cost of the bank was small (0.1 percent of GDP for the central government), close to its accounting value at the time, and included in the 2018 budget. Original shareholders lost their stakes in the bank with the acquisition. The bank is currently preparing a restructuring plan with the assistance of an international bank to redefine its business strategy and operations. Staff presented a set of best

practices to ensure that the plan restores the bank's long-term viability and addresses its structural weaknesses. The authorities agreed to follow the principles outlined in MEFP ¶39.

24. GDP rebasing. The rebasing of the national accounts is still underway. Staff encouraged the authorities to implement the recommendations of STA June Technical Assistance mission, before they publish the revised accounts. The National Institute of Statistics confirmed that the recommendations are taken on board, including the conduct of an informal cross-border trade survey (MEFP ¶45).

25. Capacity development. Staff and the authorities agreed that the Technical Assistance (TA) priorities for next year will be to enhance public investment management, cash management, revenue administration, and tax policy with a focus on VAT (See Annex IV).

PROGRAM CONDITIONALITY, FINANCING ASSURANCES AND SAFEGUARDS ASSESSMENT

26. Performance under the program continues to be strong. All quarterly QPCs at end-June 2018 were met (Table 1). The target for priority social spending was also achieved. One SB was implemented with a short delay (adoption of a regulatory text on public investment). The authorities have taken the prior action for completion of the third review (2019 budget submitted to the parliamentary commission that is consistent with the program).

27. Institutional oversight led to a small accumulation of domestic arrears in the first semester of 2018. The monitoring of debt repayments was affected by high staff turnover at the debt management agency (MEFP ¶ 7). As a result, the continuous QPC on non-accumulation of new domestic arrears was not observed over March-June.[15] Once the agency realized the missed deadlines in June, it took immediate action to clear the new arrears in full, which amounted to CFAF 2.3 billion (0.04 percent of GDP). Given that the authorities have corrected this small and temporary deviation, and have set up a new monitoring system, staff supports the authorities' request for waiver.

28. The authorities agreed to add two new SBs to be assessed during the next program review. These SBs relate to the elimination of tax expenditures in the 2019 budget (by end-December 2018) and the conduct of an audit on the stock of past debt due to domestic suppliers (by end-January 2019). In addition, the two existing SBs on the financial sector were reformulated following discussions with the authorities to make them more precise and focus on policy actions within their area of competence.

29. Program implementation risks are contained and manageable. The authorities have a strong ownership of the program, which is well aligned with their domestic policy agenda, and are committed to take corrective measures in case of slippages or unexpected events (MEFP ¶ 26). Risks

[15] Two loans to domestic banks were not repaid on time over the period.

on program targets include: growing social tensions associated with the implementation of structural reforms (as recently seen in the case of the law revising the right to strike of civil servants) and election-related pressures; a possible tightening of financing conditions in regional and international markets; and a slower recovery in Nigeria that would weigh on trade revenues.

30. The program is consistent with regional policies. By ensuring that all first-order convergence criteria (deficit, debt, and inflation) are met, Benin's ECF-supported program is aligned with economic policies at the WAEMU level discussed in the last IMF regional consultation.[16] The policies being pursued under the Benin program and the regional policies are mutually reinforcing and are aimed at maintaining fiscal sustainability, promoting regional external viability, and strengthening international reserves.

31. Financing assurances are adequate for the third review. The program is fully financed through December 2019 and there are good prospects of financing to cover the residual financing needs for the remainder of the ECF arrangement.

32. Capacity to repay the Fund. The capacity to repay the Fund is assessed to be adequate (Table 8). Benin has a track record of meeting its obligations to the Fund, debt service payments to the Fund remain manageable, and the risk of debt distress is moderate.

33. Safeguards assessment. An updated safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

STAFF APPRAISAL

34. Performance under the program remains strong. Staff supports the authorities' request for completion of the third review under the ECF arrangement. The macroeconomic and structural policies outlined in the MEFP are adequate to pursue the program's objectives. Risks to program implementation are manageable.

35. With high growth and low inflation, Benin enjoys a sound macroeconomic environment. The growth momentum continues. Preliminary estimates indicate that 2018 growth will accelerate to 6.5 percent, mainly because of stronger port activity. Inflation is projected at 1.0

[16] 2018 IMF Staff Report "West African Economic and Monetary Union: Common Policies for Member Countries" available at: IMF Country Report No. 18/106.

percent in 2018. The medium-term outlook is also favorable, driven by a stronger demand from Nigeria and a better environment for private investment.

36. Maintaining the fiscal deficit below 3 percent of GDP in 2019 and beyond is key for debt sustainability. Staff welcomes the authorities' commitment to comply with the WAEMU 3 percent of GDP deficit ceiling in the 2019 budget. Fiscal consolidation should continue after 2019 to place debt on a firm downward path and support the regional strategy to foster external stability at the WAEMU level.

37. The authorities are committed to an ambitious revenue mobilization effort next year. The quality of the revenue-raising capacity is expected to improve over time, with greater reliance on durable tax measures and a concomitant decline in nontax revenues. Broadening the tax base by eliminating tax expenditures will close some loopholes and spread the burden of taxation more fairly among the population. In the medium term, further revenue mobilization is needed to create budgetary space for social spending and infrastructure investment.

38. On the expenditure side, the composition of the 2019 budget is broadly appropriate. Priority social expenditure is expected to remain stable in percent of GDP, despite the overall budget envelope being stable in nominal terms. Consistent with the program objectives, the authorities are gradually scaling down public investment. Recent reforms have generated significant savings on the wage bill.

39. Enhanced debt management is also essential to mitigating rollover risk and lowering debt service costs. Staff supports the authorities' plan to lengthen the average debt maturity, lower the interest cost, and rebalance the structure of the debt portfolio towards more concessional external financing. The recent debt reprofiling operation is a positive step in this direction.

40. Sustaining high growth will require greater participation of the private sector. Benin's economic growth has recovered since 2016, partly because of the public investment scaling-up. With fiscal consolidation underway, the private sector will have to take over as the main growth engine in the next years. Staff urges the authorities to keep improving the business environment, push further reforms that facilitate access to electricity and finance, reinforce the anti-corruption framework, and implement the 2018 AML/CFT law.

41. Staff supports the authorities' request for completion of the third review of the ECF-supported program. Staff also supports the new QPCs for 2019; the addition of two new SBs; and the request for a waiver pertaining to the nonobservance of the criterion on the non-accumulation of new domestic arrears.

Proposed Decision

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

1. Benin has consulted with the Fund in accordance with paragraph 4.B(b) of the arrangement for Benin under the Extended Credit Facility (ECF) (EBS/17/25, 3/24/2017) (the "ECF Arrangement") to review program implementation and to reach understandings regarding the conditions for further disbursements.

2. The letter dated November 19, 2018 from the Minister of Economy and Finance of Benin (the "November 2018 Letter") together with its Memorandum of Economic and Financial Policies (the "November 2018 MEFP") and the Technical Memorandum of Understanding (the "November 2018 TMU") shall be attached to the ECF Arrangement, and the letter dated March 23, 2017 from the Minister of Economy and Finance of Benin, together with its attachments, as supplemented and modified, shall be read as further supplemented and modified by the November 2018 Letter and its attachments.

3. Accordingly, the ECF Arrangement for Benin shall be amended as follows:

a. A new paragraph 2(f) shall be included to read as follows:

   "2(f) the sixth disbursement, in an amount equivalent to SDR 15.917 million, will be available on or after October 31, 2019, at the request of Benin and subject to paragraphs 4.C and 5 below;"

b. A new paragraph 4.C of the ECF Arrangement shall be inserted to read as follows:

   "4.C. Benin will not request the sixth disbursement under this arrangement specified in paragraph 2(f) above:

(a) if the Managing Director of the Trustee finds that the data as of June 30, 2019 indicate that:

i. the ceiling on net domestic financing of the government, or

ii. the floor on the basic primary balance (excluding grants), or

iii. the floor on the total government revenue;

as set out in Table 1 of the November 2018 MEFP, and further specified in the November 2018 TMU, was not observed; or

(b) until the Trustee has determined that the fifth program review, referred to in paragraph 46 of the November 2018 MEFP, has been completed."

c. Paragraph 5 of the ECF Arrangement shall be amended to replace the words "as set out in Table 1 of the June 2018 TMU, and further specified in the June 2018 TMU" with "as set out in Table 1 of the November 2018 MEFP, and further specified in the November 2018 TMU".

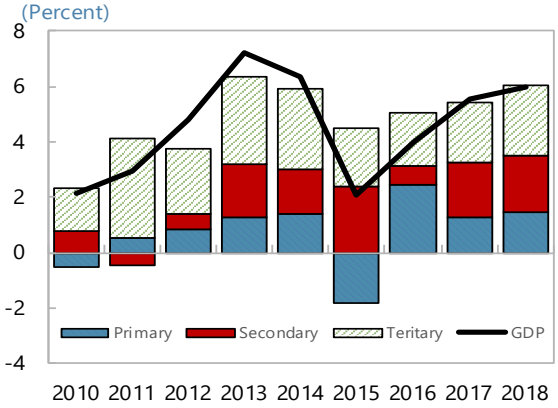
4. The Fund decides that the third review referred to in paragraph 4.B(b) of the ECF Arrangement is completed, and that Benin may request the fourth disbursement referred to in paragraph 2(d) of the ECF Arrangement, notwithstanding the nonobservance of the continuous performance criterion on the non-accumulation of new domestic arrears, specified in paragraph 5(c) of the ECF Arrangement, on the condition that the information provided by Benin on the performance under this criterion is accurate, and on the further condition that the information provided by Benin on the implementation of the measure specified as a prior action for the third review in Table 2 of the November 2018 MEFP is accurate.

Figure 1. Benin: Recent Developments, 2010–18

Growth has increased since 2016, pulled primarily by the tertiary sector...

Contribution to GDP Growth

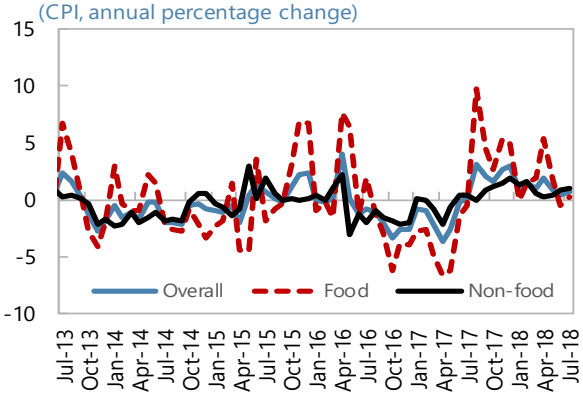
(Percent)



...and inflation has remained subdued.

Inflation

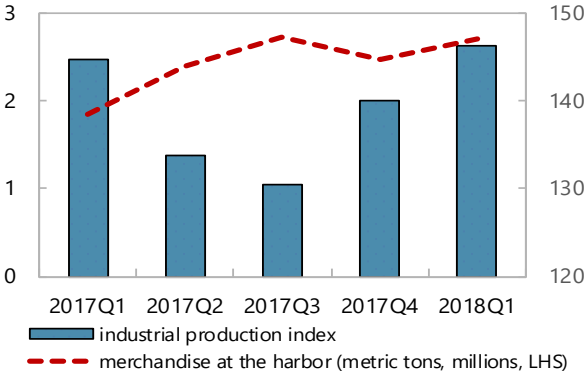
(CPI, annual percentage change)



Industrial production has picked up since end-2017.

Economic Activity

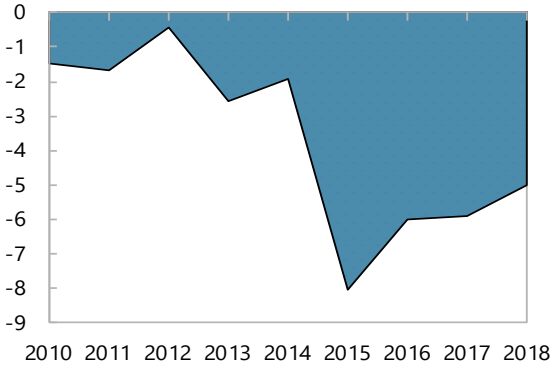
(cummulative, quarterly)



While improving under the program, the fiscal deficit remains elevated.

Overall Fiscal Balance

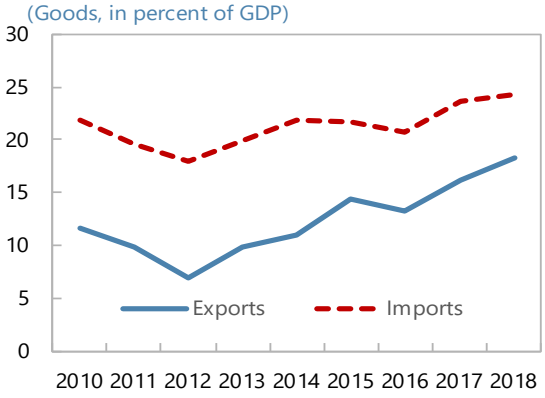
(In percent of GDP, including grants)



The large structural gap between exports and imports...

International Trade

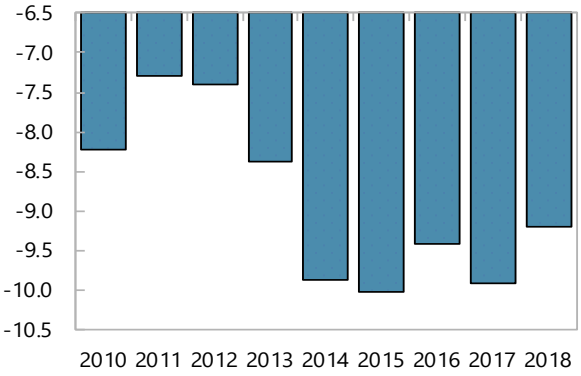
(Goods, in percent of GDP)



...drove the deterioration of the current account deficit in 2017.

Current Account Balance

(In percent of GDP)

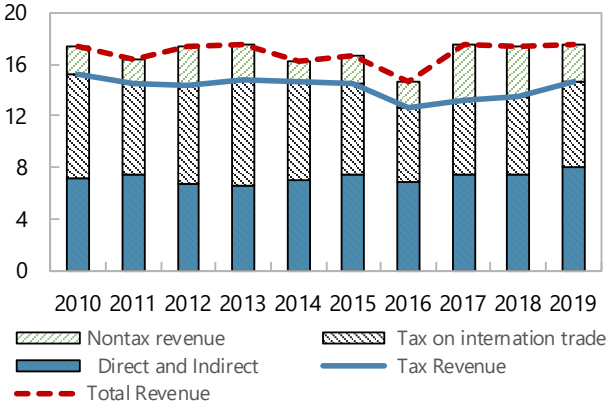


Sources: Beninese authorities and IMF staff calculations.

Figure 2. Benin: Fiscal Developments and Projections, 2010–19

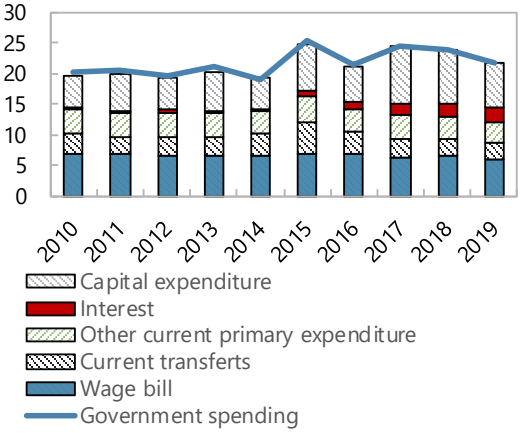
High nontax revenues...

Revenue
(percent of GDP)



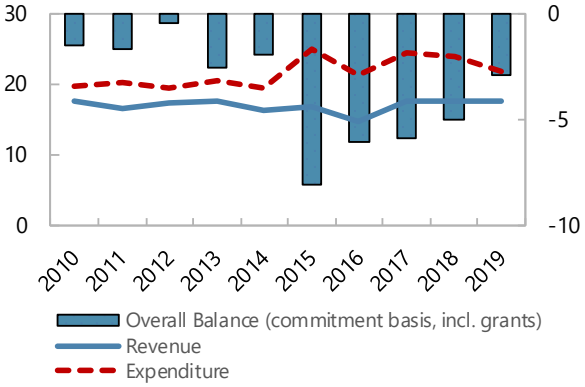
combined with a scaling down of public investment...

Expenditure
(percent of GDP)



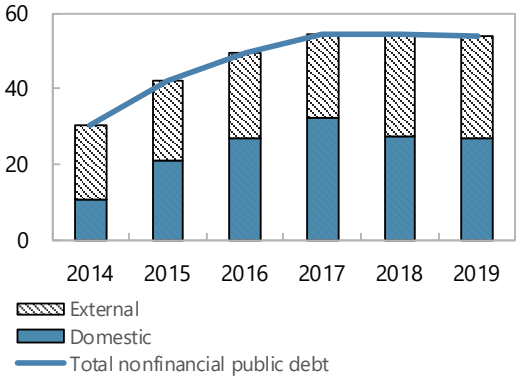
...have improved the fiscal position in 2018.

Overall fiscal deficit
(percent of GDP)



Government debt is expected to peak in 2017-18.

Total Government Debt
(percent of GDP)

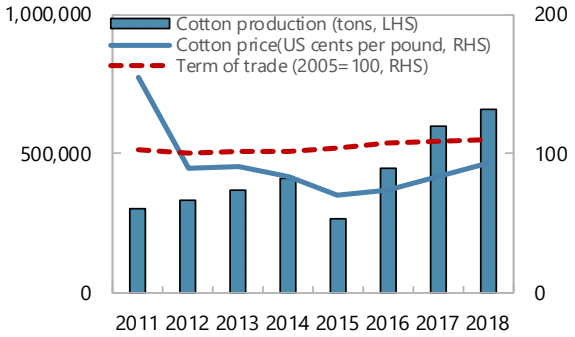


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin: Real and External Developments, 2011-2018

Cotton production rose in recent years...

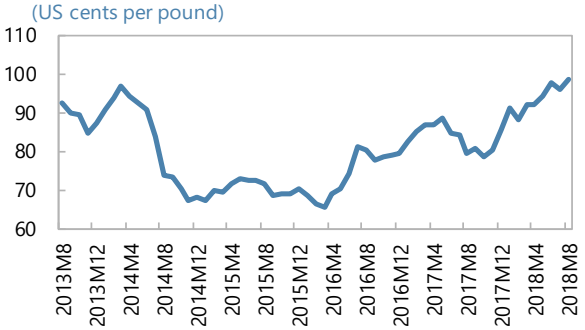
Cotton Production and Price



... as prices trended up.

International Cotton Prices

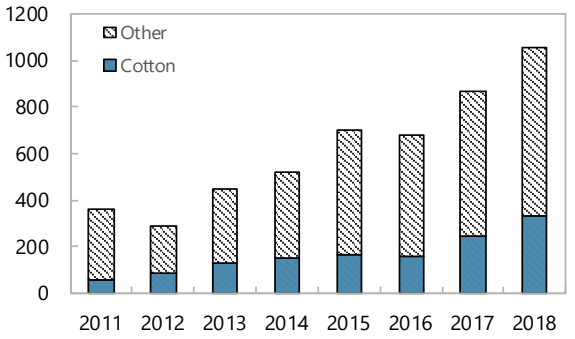
(US cents per pound)



Total exports have increased continuously...

Composition of Exports

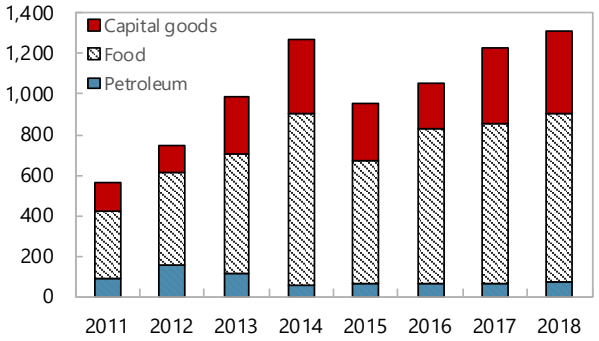
(Billions of CFAF)



... as have imports, driven by the scaling up of public investment.

Composition of Imports

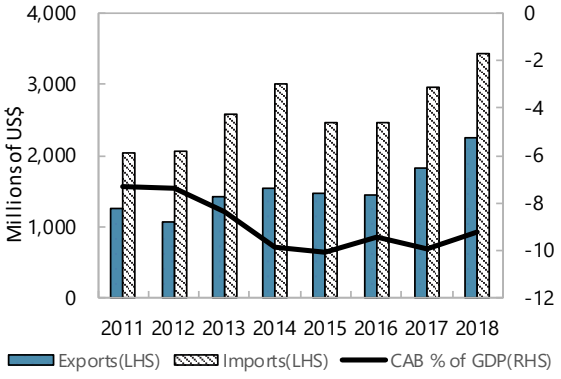
(Billions of CFAF)



The current account deteriorated until 2017.

Current Account Balance

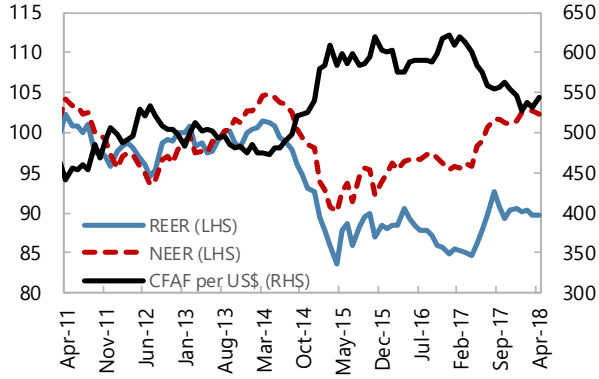
(percent of GDP)



While the CFA franc appreciated against the US dollar, the real effective exchange rate remained stable.

Exchange Rates

(2010=100)



Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Selected Economic and Financial Indicators, 2016–23

	2016	2017		2018		2019	2020	2021	2022	2023
	Act.	EBS/18/56	Est.	EBS/18/56	Est.	Prog.	Projections			
	(Annual percentage change)									
National income										
GDP at current prices	3.7	5.7	5.9	8.2	7.4	8.4	8.5	8.5	8.5	8.5
GDP at constant prices	4.0	5.6	5.8	6.0	6.5	6.5	6.5	6.5	6.5	6.5
GDP deflator	-0.3	0.0	0.0	2.0	0.9	2.0	2.0	2.0	2.0	2.0
Consumer price index (average)	-0.8	0.1	0.1	2.3	1.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	-2.7	3.0	3.0	1.7	1.0	2.0	1.9	1.9	1.9	1.9
Central government finance										
Total revenue	-9.0	26.6	26.6	8.2	8.2	8.9	10.4	9.1	8.5	8.5
Expenditure and net lending	-12.6	21.3	21.3	4.5	2.1	2.3	5.0	7.5	7.1	7.0
External sector										
Exports of goods and services	-1.6	19.2	23.9	15.1	18.4	18.5	11.8	11.8	11.5	10.9
Imports of goods and services	-0.1	19.3	18.1	10.5	10.4	11.8	9.0	7.5	6.9	9.6
Terms of trade (minus = deterioration)	3.6	1.0	1.4	-0.4	0.6	0.9	2.0	0.8	1.0	0.0
Nominal effective exchange rate (minus = depreciation)	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	...	...	...	...	...	...	...	...	...	...
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)									
Money and credit										
Net domestic assets	7.8	7.1	7.3	...	-10.4	-4.1	...	...	...	...
Domestic credit	10.2	-2.4	-2.1	...	-1.5	14.1	...	...	...	...
Net claims on central government	7.6	-3.3	-3.3	...	-2.8	7.2	...	...	...	...
Credit to the nongovernment sector	2.7	0.9	1.2	...	1.3	6.9	...	...	...	...
Broad money (M2)	0.3	1.1	1.0	...	6.9	8.4	...	...	...	...
	(Percent of GDP)									
National accounts										
Gross investment	21.0	28.4	25.5	28.4	25.5	26.2	27.1	27.2	28.2	28.5
Government investment	5.9	9.2	9.1	8.6	8.2	7.2	6.7	6.6	6.5	6.3
Nongovernment investment	15.1	19.3	16.4	19.7	17.2	19.0	20.4	20.6	21.7	22.2
Gross domestic saving	9.1	13.9	13.1	14.3	14.2	15.9	17.4	18.5	20.7	21.3
Government saving	-0.7	2.3	2.3	2.5	2.6	3.0	3.5	3.7	3.8	3.9
Non-government saving	9.8	11.6	10.8	11.8	11.6	12.9	13.9	14.8	16.9	17.4
Gross national saving	11.6	17.3	15.6	17.5	16.6	17.8	19.3	20.2	22.6	23.2
Consumption	90.9	86.1	86.9	85.7	85.8	84.1	82.6	81.5	79.3	78.7
Government consumption	12.6	11.5	11.5	11.2	11.3	10.7	10.8	10.8	10.8	10.9
Non-government consumption	78.3	74.6	75.4	74.5	74.6	73.4	71.9	70.7	68.5	67.9
Central government finance										
Total revenue (excluding grants)	14.7	17.6	17.5	17.6	17.7	17.7	18.1	18.2	18.2	18.2
Expenditure and net lending	21.4	24.5	24.5	23.7	23.3	22.0	21.3	21.1	20.8	20.5
Primary balance [1]	-5.5	-5.0	-5.0	-3.8	-3.4	-1.8	-1.0	-0.8	-0.7	-0.5
Basic primary balance [2]	-3.0	-1.5	-1.5	0.1	0.4	1.9	2.1	2.3	2.4	2.4
Overall fiscal deficit (commitment basis, excl. grants)	-6.7	-7.0	-6.9	-6.1	-5.6	-4.2	-3.2	-2.9	-2.7	-2.4
Overall fiscal deficit (commitment basis, incl. grants)	-6.0	-5.9	-5.9	-4.7	-4.7	-2.7	-1.9	-1.6	-1.3	-1.1
Total central government debt	49.5	54.2	54.2	56.6	54.4	53.8	51.4	48.7	45.8	43.0
External sector										
Balance of goods and services	-11.9	-14.5	-12.4	-14.0	-11.3	-10.3	-9.7	-8.7	-7.5	-7.2
Current account balance (incl. grants)	-9.4	-11.1	-9.9	-10.8	-8.9	-8.4	-7.8	-7.0	-5.5	-5.3
Current account balance (excl. grants)	-9.6	-11.3	-10.2	-11.1	-9.2	-8.8	-8.2	-7.3	-5.9	-5.6
Overall balance of payments	-5.2	3.2	3.2	2.7	6.1	4.3	4.5	4.8	4.8	4.9
Nominal GDP (billions of CFA francs)	5,084	5,371	5,382	5,809	5,783	6,269	6,798.8	7,375	7,998	8,676
Nominal GDP (millions of US$)	8,576	9,246	9,265	10,979	10,456	11,184	12,129	13,157	14,269	15,479
CFA francs per U.S. dollar (period average)	592.8	580.9	580.9	529.1	553.1	560.5	560.5	560.5	560.5	560.5
Total non-financial public sector debt (percent of GDP) [3]	49.7	54.4	54.4	56.8	54.6	54.0	51.6	48.9	46.0	43.2
Population (millions)	10.8	11.1	11.1	11.4	11.4	11.7	12.0	12.3	12.6	13.0
Nominal GDP per capita (U.S. dollars)	791	833	833	961	915	954	1009	1067	1128	1194

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[3] Data include projected central government debt and new non-financial public sector borrowing for infrastructure for 2016 as well as the nominal amount of government guarantees.

Table 2. Benin: Consolidated Central Government Operations, 2016–23

	2016	2017		2018		2019	2020	2021	2022	2023
	Act.	EBS/18/56	Est.	EBS/18/56	Est.	Prog.	Projections			
	(Billions of CFA francs)									
Total revenue (excluding grants)	745.7	944.4	944.4	1021.6	1021.7	1112.4	1227.5	1338.9	1452.0	1575.2
Tax revenue	641.1	712.8	712.8	855.2	777.7	935.6	1023.1	1117.1	1211.5	1314.3
Tax on international trade	288.5	316.0	316.0	387.0	348.3	421.5	463.9	503.2	545.7	592.0
Direct and indirect taxes	352.6	396.8	396.8	468.2	429.4	514.1	559.2	613.9	665.8	722.3
Nontax revenue	104.6	231.6	231.6	166.4	244.0	176.8	204.5	221.8	240.5	261.0
Total expenditure and net lending	1086.3	1318.1	1318.1	1377.6	1346.2	1376.6	1445.8	1554.2	1664.4	1780.9
Current expenditure	781.1	820.2	820.2	877.6	871.2	925.1	990.8	1068.0	1145.2	1235.0
Current primary expenditure	717.8	713.8	713.8	744.7	743.5	771.2	839.7	914.6	988.2	1076.6
Wage bill	353.8	337.3	337.3	378.3	378.3	397.7	428.3	464.6	503.9	546.6
Pensions and scholarships	78.4	95.6	95.6	93.9	92.8	99.3	108.6	121.5	128.1	134.8
Current transfers	185.5	166.6	166.6	170.0	170.0	173.1	188.6	204.5	221.8	240.6
of which: subsidies to the cotton sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	100.1	114.3	114.3	102.5	102.5	101.2	114.3	123.9	134.4	154.5
Interest	63.3	106.4	106.4	132.9	127.7	153.9	151.1	153.5	157.0	158.4
Domestic debt	51.4	88.4	88.4	107.6	111.4	121.9	112.2	110.1	108.9	106.4
External debt	11.9	18.0	18.0	25.3	16.3	32.0	38.9	43.4	48.1	52.1
Capital expenditure and net lending	305.2	497.9	497.9	500.0	475.0	451.5	455.0	486.1	519.2	545.9
Capital expenditure [1]	299.6	491.5	491.5	500.0	475.0	451.5	455.0	486.1	519.2	545.9
Financed by domestic resources	178.5	313.0	313.0	273.0	257.0	220.4	244.5	257.8	271.6	294.7
Financed by external resources	121.1	178.5	178.5	227.0	218.0	231.1	210.5	228.3	247.6	251.2
Net lending	5.5	6.4	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-306.0	-316.5	-316.5	-273.1	-270.1	-171.4	-129.4	-117.6	-106.4	-99.4
Primary balance [2]	*-277.3*	*-267.3*	*-267.3*	*-223.1*	*-196.8*	*-110.4*	*-67.2*	*-61.8*	*-55.4*	*-47.2*
Basic primary balance [3]	*-150.6*	*-82.4*	*-82.4*	*3.9*	*21.2*	*120.7*	*143.3*	*166.5*	*192.2*	*204.0*
Change in arrears and float	-1.4	-5.3	-5.3	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-1.4	-5.3	-5.3	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Overall balance (cash basis, excl. grants)	-341.3	-364.4	-364.4	-366.0	-334.5	-274.3	-228.3	-225.3	-222.3	-109.4
Financing	341.3	364.4	364.4	366.0	334.5	274.3	228.3	225.3	222.3	215.7
Domestic financing	224.2	185.9	185.9	118.8	-54.9	36.0	35.5	19.9	-0.8	4.8
Bank financing	158.0	-69.6	-69.6	145.1	-58.1	162.1	170.1	165.9	157.5	176.5
Net use of IMF resources	-5.1	17.9	17.9	15.5	13.3	11.9	1.7	-9.2	-7.1	-9.6
Disbursements	0.0	25.8	25.8	26.7	25.0	24.4	12.5	0.0	0.0	0.0
Repayments	-5.1	-7.9	-7.9	-11.2	-11.7	-12.5	-10.9	-9.2	-7.1	-9.6
Other	163.1	-87.4	-87.4	129.6	-71.4	150.2	168.4	175.1	164.6	186.1
Nonbank financing	66.2	255.5	255.5	-26.3	3.2	-126.1	-134.6	-146.0	-158.3	-171.7
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-7.1	-7.0	-7.0	-7.0	-7.0	-2.0	0.0	0.0	0.0	0.0
Other	73.3	262.5	262.5	-19.3	10.2	-124.1	-134.6	-146.0	-158.3	-171.7
External financing	117.0	178.5	178.5	247.1	389.5	238.3	192.8	205.3	223.1	210.9
Project financing	121.1	178.5	178.5	227.0	218.0	231.1	210.5	228.3	247.6	251.2
Grants	26.1	43.3	43.3	67.0	37.0	67.5	73.9	80.1	86.9	94.3
Loans	95.0	135.3	135.3	160.0	181.0	163.6	136.6	148.2	160.7	157.0
Amortization due	-24.3	-51.8	-51.8	-35.3	-28.8	-38.2	-61.3	-70.8	-76.4	-79.3
Budgetary assistance [4]	20.2	51.7	51.7	55.4	200.3	45.4	43.6	47.9	51.9	39.0
Grants	8.5	15.8	14.0	15.8	17.5	25.3	15.0	17.6	19.1	12.0
Loans	11.6	39.2	37.8	39.6	182.8	20.1	28.6	30.3	32.8	27.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	5,084	5,371	5,382	5,809	5,783	6,269	6,799	7,375	7,998	8,676

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Data include executed pre-financed projects in 2016.

[2] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[3] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[4] The upward revision in 2018 relative to EBS/18/56 is due partly to the debt reprofiling operation.

Table 3. Benin: Consolidated Central Government Operations, 2016–23

	2016	2017		2018		2019	2020	2021	2022	2023
	Act.	EBS/18/56	Est.	EBS/18/56	Est.	Prog.	Projections			
				(Percent of GDP)						
Total revenue exluding grants	14.7	17.6	17.5	17.6	17.7	17.7	18.1	18.2	18.2	18.2
Tax revenue	12.6	13.3	13.2	14.7	13.4	14.9	15.0	15.1	15.1	15.1
Tax on international trade	5.7	5.9	5.9	6.7	6.0	6.7	6.8	6.8	6.8	6.8
Direct and indirect taxes	6.9	7.4	7.4	8.1	7.4	8.2	8.2	8.3	8.3	8.3
Nontax revenue	2.1	4.3	4.3	2.9	4.2	2.8	3.0	3.0	3.0	3.0
Total expenditure and net lending	21.4	24.5	24.5	23.7	23.3	22.0	21.3	21.1	20.8	20.5
Current expenditures	15.4	15.3	15.2	15.1	15.1	14.8	14.6	14.5	14.3	14.2
Current primary expenditures	14.1	13.3	13.3	12.8	12.9	12.3	12.4	12.4	12.4	12.4
Wage bill	7.0	6.3	6.3	6.5	6.5	6.3	6.3	6.3	6.3	6.3
Pensions and scholarships	1.5	1.8	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Current transfers	3.6	3.1	3.1	2.9	2.9	2.8	2.8	2.8	2.8	2.8
Expenditure on goods and services	2.0	2.1	2.1	1.8	1.8	1.6	1.7	1.7	1.7	1.8
Interest	1.2	2.0	2.0	2.3	2.2	2.5	2.2	2.1	2.0	1.8
Domestic debt	1.0	1.6	1.6	1.9	1.9	1.9	1.7	1.5	1.4	1.2
External debt	0.2	0.3	0.3	0.4	0.3	0.5	0.6	0.6	0.6	0.6
Capital expenditure and net lending	6.0	9.3	9.3	8.6	8.2	7.2	6.7	6.6	6.5	6.3
Capital expenditure	5.9	9.2	9.1	8.6	8.2	7.2	6.7	6.6	6.5	6.3
Financed by domestic resources	3.5	5.8	5.8	4.7	4.4	3.5	3.6	3.5	3.4	3.4
Financed by external resources	2.4	3.3	3.3	3.9	3.8	3.7	3.1	3.1	3.1	2.9
Net lending (minus = reimbursement)	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-6.0	-5.9	-5.9	-4.7	-4.7	-2.7	-1.9	-1.6	-1.3	-1.1
Primary balance [1]	-5.5	-5.0	-5.0	-3.8	-3.4	-1.8	-1.0	-0.8	-0.7	-0.5
Basic primary balance [2]	-3.0	-1.5	-1.5	0.1	0.4	1.9	2.1	2.3	2.4	2.4
Change in arrears and float	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Overall balance (cash basis, excl. grants)	-6.7	-6.8	-6.8	-6.3	-5.8	-4.4	-3.4	-3.1	-2.8	-1.3
Financing	6.7	6.8	6.8	6.3	5.8	4.4	3.4	3.1	2.8	2.5
Domestic financing	4.4	3.5	3.5	2.0	-0.9	0.6	0.5	0.3	0.0	0.1
Bank financing	3.1	-1.3	-1.3	2.5	-1.0	2.6	2.5	2.2	2.0	2.0
Net use of IMF resources	-0.1	0.3	0.3	0.3	0.2	0.2	0.0	-0.1	-0.1	-0.1
Other	3.2	-1.6	-1.6	2.2	-1.2	2.4	2.5	2.4	2.1	2.1
Nonbank financing	1.3	4.8	4.7	-0.5	0.1	-2.0	-2.0	-2.0	-2.0	-2.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Other	1.4	4.9	4.9	-0.3	0.2	-2.0	-2.0	-2.0	-2.0	-2.0
External financing	2.3	3.3	3.3	4.3	6.7	3.8	2.8	2.8	2.8	2.4
Project financing	2.4	3.3	3.3	3.9	3.8	3.7	3.1	3.1	3.1	2.9
Grants	0.5	0.8	0.8	1.2	0.6	1.1	1.1	1.1	1.1	1.1
Loans	1.9	2.5	2.5	2.8	3.1	2.6	2.0	2.0	2.0	1.8
Amortization due	-0.5	-1.0	-1.0	-0.6	-0.5	-0.6	-0.9	-1.0	-1.0	-0.9
Budgetary assistance [4]	0.4	1.0	1.0	1.0	3.5	0.7	0.6	0.6	0.6	0.4
Grants	0.2	0.3	0.3	0.3	0.3	0.4	0.2	0.2	0.2	0.1
Loans	0.2	0.7	0.7	0.7	3.2	0.3	0.4	0.4	0.4	0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total revenue and grants	15.2	18.6	18.6	19.0	18.6	19.2	19.4	19.5	19.5	19.4
Revenue	14.5	17.6	17.5	17.6	17.7	17.7	18.1	18.2	18.2	18.2
Grants	0.7	1.1	1.1	1.4	0.9	1.5	1.3	1.3	1.3	1.2
Total central government debt	49.5	54.2	54.2	56.6	54.4	53.8	51.4	48.7	45.8	43.0
Total nonfinancial public sector debt [3]	49.7	54.6	54.4	56.8	54.6	54.0	51.6	48.9	46.0	43.2
GDP (billions of CFA francs)	5,084	5,371	5,382	5,809	5,783	6,269	6,799	7,375	7,998	8,676

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[3] Data include projected central government debt and government guarantees.

[4] The upward revision in 2018 relative to EBS/18/56 is due partly to the debt reprofiling operation.

Table 4. Benin: Consolidated Central Government Operations, 2018–19

	2018 [3]							2019 [3]			
	Q1		Q2		Q3	Year	Year	Q1	Q2	Q3	Year
	EBS/17/109	Est.	EBS/17/109	Est.	EBS/17/109	EBS/17/109	Est.	Prog.	Prog.	Prog.	Prog.
	(Billions of CFA francs)										
Total revenue (excluding grants)	204.8	209.5	445.5	475.1	707.1	1021.6	1021.7	235.1	505.5	762.5	1112.4
Tax revenue	187.7	174.9	395.6	369.5	612.4	855.2	777.7	192.6	428.1	646.0	935.6
Tax on international trade	80.4	77.9	164.7	159.1	274.2	387.0	348.3	86.3	155.5	290.1	421.5
Direct and indirect taxes	107.3	97.0	230.9	210.3	338.2	468.2	429.4	106.4	272.6	355.9	514.1
Nontax revenue	17.1	34.6	49.9	105.6	94.7	166.4	244.0	42.4	77.4	116.5	176.8
Total expenditure and net lending	341.3	268.9	659.2	619.8	988.4	1377.6	1346.2	254.4	611.5	972.0	1376.6
Current expenditure	218.3	189.9	424.6	403.8	630.8	877.6	871.2	199.9	426.7	665.5	925.1
Current primary expenditure	198.5	170.8	364.2	346.3	537.7	744.7	743.5	177.6	360.5	557.2	771.2
Wage bill	102.2	95.8	193.5	187.2	264.0	378.3	378.3	100.7	196.8	277.5	397.7
Pensions and scholarships	25.2	22.9	54.2	45.3	78.5	93.9	92.8	24.5	49.2	83.0	99.3
Current transfers	49.6	33.0	70.6	69.0	127.4	170.0	170.0	33.6	70.2	129.7	173.1
Expenditure on goods and services	21.5	19.1	45.9	44.8	67.9	102.5	102.5	18.9	44.3	67.0	101.2
Interest	*19.8*	*19.1*	*60.3*	*57.5*	*93.1*	*132.9*	127.7	*22.3*	*66.2*	*108.3*	*153.9*
Domestic debt	15.5	14.6	48.7	49.6	75.8	107.6	111.4	16.6	56.2	85.9	121.9
External debt	4.3	4.5	11.6	7.8	17.2	25.3	16.3	5.7	10.0	22.4	32.0
Capital expenditure and net lending	123.0	79.0	234.6	216.0	357.6	500.0	475.0	54.5	184.8	306.5	451.5
Capital expenditure	123.0	81.1	234.6	215.6	357.6	500.0	475.0	54.5	184.8	307.8	451.5
Financed by domestic resources	75.9	57.3	128.8	146.5	189.7	273.0	257.0	41.9	100.6	157.6	220.4
Financed by external resources	47.0	23.8	105.9	69.1	167.9	227.0	218.0	12.7	84.2	150.1	231.1
Net lending (minus = reimbursement)	0.0	-2.1	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, excl. grants)	-136.5	-59.4	-213.7	-144.7	-281.3	-356.0	-324.5	-19.3	-106.0	-210.8	-264.3
Primary balance [1]	-116.7	-40.3	-153.4	-87.2	-188.2	-223.1	-196.8	*3.0*	*-39.8*	*-102.5*	-110.4
Basic primary balance [2]	-69.7	-18.5	-47.5	-17.7	-20.3	3.9	21.2	15.6	44.5	47.7	120.7
Change in arrears	-2.5	-0.3	-5.0	-0.3	-7.5	-10.0	-10.0	-2.5	-5.0	-7.5	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-2.5	-0.3	-5.0	-0.3	-7.5	-10.0	-10.0	-2.5	-5.0	-7.5	-10.0
Overall balance (cash basis, excl. grants)	-139.0	-62.6	-218.7	-126.9	-288.8	-366.0	-334.5	-21.8	-111.0	-218.2	-274.3
Financing	-139.0	62.6	218.7	126.9	288.8	366.0	334.5	21.8	111.0	218.2	274.3
Domestic financing	74.7	43.0	107.9	71.1	103.0	118.8	-54.9	15.0	45.9	68.8	36.0
Bank financing	95.1	92.4	62.9	67.6	106.5	145.1	-58.1	46.5	109.0	163.4	162.1
Net use of IMF resources	-3.2	-3.2	7.7	-5.6	5.3	15.5	13.3	3.0	6.0	8.9	11.9
Disbursements	0.0	0.0	13.3	0.0	13.3	26.7	25.0	6.1	12.2	18.3	24.4
Repayments	-3.2	-3.2	-5.6	-5.6	-8.0	-11.2	-11.7	-3.1	-6.3	-9.4	-12.5
Other	98.3	95.5	56.0	73.2	101.2	129.6	-71.4	43.5	103.0	154.5	150.2
Nonbank financing	-20.5	-49.3	45.0	3.6	-3.5	-26.3	3.2	-31.5	-63.0	-94.6	-126.1
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-2.0	-1.4	-2.0	-1.5	-4.0	-7.0	-7.0	-0.5	-1.0	-1.5	2.0
Other	-18.5	-47.9	47.0	5.1	0.5	-19.3	10.2	-31.0	-62.0	-93.1	-124.1
External financing	64.3	19.6	110.8	110.8	185.8	247.1	389.5	6.9	65.1	149.4	238.3
Project financing	47.0	23.8	105.9	105.9	167.9	227.0	218.0	12.7	84.2	150.1	231.1
Grants	13.3	12.0	29.9	15.3	44.6	67.0	37.0	0.0	34.3	51.9	67.5
Loans	33.8	11.8	76.0	76.0	123.3	160.0	181.0	12.7	49.9	98.3	163.6
Amortization due	-5.3	-4.2	-17.7	-17.7	-21.7	-35.3	-28.8	-5.8	-19.2	-23.5	-38.2
Budgetary assistance	22.6	0.0	22.6	22.6	39.6	55.4	200.3	0.0	0.0	22.8	45.4
Grants	0.0	0.0	0.0	0.0	0.0	15.8	17.5	0.0	0.0	0.0	25.3
Loans	22.6	0.0	22.6	22.6	39.6	39.6	182.8	0.0	0.0	22.8	20.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:											
Grants	13.3	12.0	29.9	15.3	44.6	82.8	54.5	0.0	34.3	51.9	92.8
GDP (billions of CFA francs, annual)	5,783	5,783	5,783	5,783	5,783	5,783	5,783	6269.0	6269.0	6269.0	6269.0

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Total revenue minus current primary expenditure, capital expenditure, and net lending.

[2] Total revenue minus current primary expenditure and capital expenditure financed by domestic resources.

[3] Data are computed on a cumulative basis

Table 5. Benin: Balance of Payments, 2016–23

	2016	2017		2018		2019	2020	2021	2022	2023
	Act.	EBS/18/56	Est.	EBS/18/56	Est.	Prog.	Projections			
	(Billions of CFA francs)									
Current account balance	-479.1	-595.1	-535.2	-628.5	-512.0	-529.2	-531.9	-513.3	-443.7	-460.1
Excluding budgetary assistance grants	-487.6	-609.1	-549.2	-644.3	-529.4	-554.5	-557.2	-538.6	-469.0	-485.4
Balance of goods and services	-606.1	-779.2	-666.6	-816.2	-652.0	-645.6	-661.5	-639.1	-596.7	-625.4
Credit	851.0	990.2	1054.5	1139.7	1248.4	1479.0	1654.3	1849.8	2063.0	2288.4
Debit	-1457.0	-1769.4	-1721.1	-1955.9	-1900.4	-2124.6	-2315.8	-2489.0	-2659.7	-2913.8
Trade balance [1]	-378.4	-490.0	-400.1	-486.5	-340.5	-292.6	-268.0	-197.7	-90.2	-99.5
Exports, f.o.b.	677.3	803.2	868.1	945.2	1054.5	1277.0	1449.7	1645.6	1881.8	2114.1
Cotton and textiles	159.2	196.5	244.0	240.9	335.5	431.6	545.8	651.2	747.7	784.7
Other	518.1	606.7	624.0	704.3	719.0	845.4	903.9	994.4	1134.1	1329.4
Imports, f.o.b. [2]	-1055.7	-1293.2	-1268.2	-1431.7	-1395.0	-1569.6	-1717.6	-1843.3	-1972.0	-2213.6
Services (net)	-227.7	-289.2	-266.4	-329.7	-311.5	-353.0	-393.6	-441.4	-506.6	-525.9
Credit	173.7	187.0	186.5	194.5	193.9	202.0	204.6	204.2	181.1	174.3
Debit	-401.3	-476.2	-452.9	-524.2	-505.4	-555.0	-598.2	-645.6	-687.7	-700.2
Income (net)	1.9	-6.8	-6.8	-17.3	-8.2	-27.7	-33.0	-37.5	-42.3	-46.4
Of which: interest due on central government debt	-11.9	-18.0	-18.0	-25.3	-16.3	-32.0	-38.9	-43.4	-48.1	-52.1
Current transfers (net)	125.1	190.9	138.1	205.0	148.3	144.1	162.6	163.4	195.3	211.6
Unrequited private transfers	30.1	98.2	36.1	109.4	41.6	53.2	71.2	71.4	80.2	89.9
Public current transfers	95.0	92.7	102.1	95.6	106.7	90.9	91.4	91.9	115.1	121.7
Of which: budgetary assistance grants	8.5	14.0	14.0	15.8	17.5	25.3	25.3	25.3	25.3	25.3
Capital and financial account balance	302.4	597.9	514.5	785.8	864.7	800.6	839.9	863.6	827.7	881.2
Capital account balance	26.1	43.3	43.3	67.0	37.0	37.6	40.8	44.2	48.0	52.1
Financial account balance	276.3	554.6	471.2	718.8	827.7	763.0	799.2	819.3	779.7	829.1
Medium- and long-term public capital	86.4	125.2	125.2	168.3	339.0	149.4	140.1	145.6	156.3	171.0
Disbursements	110.6	177.0	177.0	203.6	367.8	187.7	201.4	216.4	232.7	250.3
Project loans	99.0	139.3	139.3	164.0	185.0	167.6	181.3	196.3	212.6	230.2
Of which: central government project loans	95.0	135.3	135.3	160.0	181.0	163.6	136.6	148.2	160.7	157.0
Budgetary assistance loans [3]	11.6	37.8	37.8	39.6	182.8	20.1	20.1	20.1	20.1	20.1
Amortization due	-24.3	-51.8	-51.8	-35.3	-28.8	-38.2	-61.3	-70.8	-76.4	-79.3
Foreign direct investment	67.8	180.1	94.1	237.8	109.8	119.0	125.9	136.5	148.1	160.6
Portfolio investment	50.4	106.4	106.6	126.6	128.3	180.8	225.5	244.6	258.6	280.5
Other medium- and long-term private capital	29.0	61.1	61.2	72.8	72.5	86.4	94.7	103.7	113.6	110.9
Deposit money banks	-28.9	-24.2	-22.1	-24.1	-21.5	-21.2	-19.1	-20.0	-20.0	-20.0
Short-term capital [2]	71.6	106.0	106.2	137.5	199.7	248.5	232.0	208.9	124.6	123.0
Errors and omissions	-88.0	170.5	191.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance [3]	-264.7	173.2	170.3	157.3	352.7	271.4	308.0	350.3	384.0	421.0
Change in net foreign assets, BCEAO (- = increase) [3]	264.7	-173.2	-170.3	-157.3	-352.7	-271.4	-308.0	-350.3	-384.0	-421.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)									
Memorandum items:										
Current account balance (incl. budgetary assistance grants)	-9.4	-11.1	-9.9	-10.8	-8.9	-8.4	-7.8	-7.0	-5.5	-5.3
Current account balance (excl. budgetary assistance grants)	-9.6	-11.3	-10.2	-11.1	-9.2	-8.8	-8.2	-7.3	-5.9	-5.6
Balance of goods and services	-11.9	-14.5	-12.4	-14.0	-11.3	-10.3	-9.7	-8.7	-7.5	-7.2
Trade balance	-7.4	-9.1	-7.4	-8.4	-5.9	-4.7	-3.9	-2.7	-1.1	-1.1
Exports	13.3	15.0	16.1	16.3	18.2	20.4	21.3	22.3	23.5	24.4
Imports	-20.8	-24.1	-23.6	-24.6	-24.1	-25.0	-25.3	-25.0	-24.7	-25.5
Income and current transfers (net)	2.5	3.4	2.4	3.2	2.4	1.9	1.9	1.7	1.9	1.9
Capital account balance	0.5	0.8	0.8	1.2	0.6	0.6	0.6	0.6	0.6	0.6
Financial account balance [3]	5.4	10.3	8.8	12.4	14.3	12.2	11.8	11.1	9.7	9.6
Overall balance [3]	-5.2	3.2	3.2	2.7	6.1	4.3	4.5	4.8	4.8	4.9
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	74.2	83.6	83.6	90.5	93.3	91.5	86.5	82.8	82.8	82.8
International price of oil (U.S. dollars a barrel)	42.8	52.8	52.8	62.3	69.4	68.8	65.7	63.1	61.3	60.3
WAEMU gross official reserves (in $US billions)	11.0	12.4	12.4	14.4	16.3	17.6	19.8	21.9	21.0	24.7
WAEMU gross official reserves (months of WAEMU imports of GS) [2]	3.8	4.2	3.8	4.2	4.4	4.5	4.7	5.1	4.7	4.9
WAEMU gross official reserves (in percent of broad money)	3.1	3.4	3.4	2.8	4.0	4.0	3.7	3.7	3.1	3.2
GDP (billions of CFA francs)	5,084	5,371	5,382	5,809	5,783	6,269	6,799	7,375	7,998	8,676

Sources: Beninese authorities; IMF staff estimates and projections.

Note: ... = not available.

[1] Excludes re-exports and imports for re-export.

[2] Projections for short-term capital include estimates to adjust for the trend in errors and omissions.

[3] The upward revision in 2018 relative to EBS/18/56 is due partly to the debt reprofiling operation.

Table 6. Benin: Monetary Survey 2016–19

	2016	2017		2018		2019
	Act.	EBS/18/56	Est.	EBS/18/56	Est.	Prog.
	(Billions of CFA francs)					
Net foreign assets	1106.3	930.8	994.9	1112.2	1369.1	1661.7
Central Bank of West African States (BCEAO) [2]	37.9	211.1	208.2	368.4	560.9	832.4
Banks	1068.4	719.7	786.7	743.8	808.2	829.3
Net domestic assets	1049.1	1292.0	1202.0	1579.9	981.9	888.4
Domestic credit	1703.9	1529.7	1659.5	1675.3	1628.9	1947.1
Net claims on central government	398.1	328.5	328.5	473.6	270.4	432.5
Credit to the nongovernment sector[1]	1305.8	1201.2	1331.0	1201.7	1358.5	1514.5
o/w: Credit to the private sector	1224.7	1098.4	1222.7	1098.9	1240.2	1396.2
Other items (net)	457.4	-7.8	212.1	-150.0	401.5	813.2
Broad money (M2)	2085.8	2133.6	2107.6	2692.6	2252.9	2442.2
Currency	532.9	536.4	533.5	667.1	570.3	618.2
Bank deposits	695.3	738.1	727.8	1066.4	777.9	843.3
Deposits with postal checking accounts	857.6	859.0	846.3	959.1	904.7	980.7
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	-8.0	-5.1	-5.3	8.5	17.8	13.0
Central Bank of West African States (BCEAO)	-12.7	8.2	8.2	7.4	16.7	12.0
Banks	4.7	-13.3	-13.5	1.1	1.0	0.9
Net domestic assets	7.8	7.1	7.3	13.5	-10.4	-4.1
Domestic credit	10.2	-2.4	-2.1	6.8	-1.5	14.1
Net claims on central government	7.6	-3.3	-3.3	6.8	-2.8	7.2
Credit to the nongovernment sector[1]	2.7	0.9	1.2	0.0	1.3	6.9
Other items (net)	3.3	-1.1	-0.9	0.0	0.0	0.0
Broad money (M2)	0.3	1.1	1.0	21.5	6.9	8.4
Currency	-3.7	0.2	0.0	6.1	1.7	2.1
Bank deposits	1.4	1.6	1.6	15.4	2.4	2.9
Deposits with postal checking accounts	2.6	-0.6	-0.5	0.0	2.8	3.4
Memorandum items:						
Velocity of broad money	2.4	2.5	2.6	2.5	2.6	2.6
Broad money as share of GDP	41.0	39.7	39.2	46.4	39.0	39.0
Credit to the nongovernment sector, [1] (year-on-year change in percent)	4.4	1.5	1.9	0.0	2.1	11.5
Credit to the private sector (year-on-year change in percent)	8.7	-0.8	-0.2	0.0	1.4	12.6
Nominal GDP (billions of CFA francs, annual)	5,084	5,371	5,382	5,809	5,783	6,269
Nominal GDP growth (annual change in percent)	3.7	5.7	5.9	8.2	7.4	8.4

Sources: BCEAO; IMF staff estimates and projections.

[1] Including credit to the private sector and to other non-financial public sector.

[2] The upward revision in NFA in 2018 relative to EBS/18/56 is due to the debt reprofiling operation.

Table 7. Benin: Schedule of Disbursements Under the ECF Arrangement

Date Available	Amount	Conditions Necessary for Disbursement
April 7, 2017	SDR 15.917 million	Executive Board approval of the ECF arrangement.
October 31, 2017	SDR 15.917 million	Observance of end-June 2017 performance criteria, and completion of the first review under the arrangement.
April 30, 2018	SDR 15.917 million	Observance of end-December 2017 performance criteria, and completion of the second review under the arrangement.
October 31, 2018	SDR 15.917 million	Observance of end-June 2018 performance criteria, and completion of the third review under the arrangement.
April 30, 2019	SDR 15.917 million	Observance of end-December 2018 performance criteria, and completion of the fourth review under the arrangement.
October 31, 2019	SDR 15.917 million	Observance of end-June, 2019 performance criteria, and completion of the fifth review under the arrangement.
March 23, 2020	SDR 15.918 million	Observance of end-December 2019 performance criteria, and completion of the sixth review under the arrangement.
Total	SDR 111.42 million	

Source: International Monetary Fund.

Table 8. Benin: Indicators of Capacity to Repay the Fund, 2018–32[1]

(In millions of SDRs; Reporting Year: January to December)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
IMF obligations based on existing credit[1] (millions of SDRs)															
Principal	3.2	14.8	13.8	11.7	9.0	10.6	10.6	9.6	9.6	8.0	3.2	0.0	0.0	0.0	0.0
Charges and interest[2]	0.03	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
IMF obligations based on existing and prospective drawings (millions of SDRs)															
Principal	3.2	14.8	13.8	11.7	9.0	10.6	15.4	20.7	22.3	20.7	15.9	8.0	1.6	0.0	0.0
Charges and interest	0.03	0.1	0.1	0.1	0.1	0.1	0.14	0.14	0.14	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit[3]															
Millions of SDRs	3.3	15.0	13.9	11.8	9.2	10.8	15.5	20.8	22.4	20.8	16.1	8.1	1.7	0.1	0.1
Billions of CFA francs	2.6	11.8	11.0	9.3	7.2	8.5	12.2	16.4	17.7	16.4	12.7	6.4	1.4	0.1	0.1
Percent of government revenue	0.3	1.1	0.9	0.7	0.5	0.5	0.7	0.9	0.8	0.7	0.5	0.2	0.0	0.0	n.a.
Percent of exports of goods and services	0.2	0.8	0.7	0.5	0.4	0.4	0.6	0.7	0.7	0.6	0.4	0.2	0.0	0.0	n.a.
Percent of debt service	1.0	4.0	3.4	2.9	2.2	2.7	3.8	5.1	5.4	4.9	3.6	1.6	0.3	0.0	n.a.
Percent of GDP	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.0	n.a.
Percent of quota	12.1	11.3	9.6	7.4	10.0	12.6	16.9	18.2	16.9	11.7	n.a.	n.a.	0.0	n.a.	n.a.
Outstanding IMF credit[3]															
Millions of SDRs	116.7	133.7	135.8	124.2	113.5	102.9	87.5	66.9	44.6	23.9	9.6	1.6	0.0	0.0	1.0
Billions of CFA francs	91.6	105.3	107.0	97.8	89.5	81.1	69.0	52.7	35.1	18.8	7.5	1.3	0.0	0.0	n.a.
Percent of government revenue	9.0	9.5	8.7	7.3	6.2	5.1	4.0	2.8	1.7	0.8	0.3	0.0	0.0	0.0	n.a.
Percent of exports of goods and services	7.3	7.1	6.7	5.6	4.7	4.0	3.1	2.2	1.3	0.7	0.2	0.0	0.0	0.0	n.a.
Percent of debt service	36.9	35.4	33.5	30.4	27.7	25.4	21.5	16.5	10.8	5.6	2.1	0.3	0.0	0.0	n.a.
Percent of GDP	1.6	1.7	1.6	1.3	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	n.a.
Percent of quota	94.2	108.0	109.7	100.3	91.7	83.1	70.7	54.0	36.0	19.3	7.7	1.3	0.0	0.0	0.8
Net use of IMF credit (millions of SDRs)	28.6	17.0	2.1	-11.7	-9.0	-10.6	-15.4	-20.7	-22.3	-20.7	-15.9	-8.0	-1.6	0.0	1.0
Disbursements (including prospective ones)	31.8	31.8	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	3.2	14.8	13.8	11.7	9.0	10.6	15.4	20.7	22.3	20.7	15.9	8.0	1.6	0.0	0.0
Memorandum items:															
Charges and interest, after assumed subsidies (millions of SDRs)	0.20	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	n.a.	n.a.	n.a.	n.a.	n.a.
Nominal GDP (billions of CFA francs)	5,783	6,269	6,799	7,375	7,998	8,676	9,426	10,245	11,142	12,125	13,202	14,383	15,678	17,100	n.a.
Exports of goods and services (billions of CFA francs)	1,248	1,479	1,604	1,740	1,887	2,047	2,224	2,417	2,629	2,861	3,115	3,393	3,699	4,034	n.a.
Government revenue (billions of CFA francs)	1,022	1,112	1,228	1,339	1,452	1,575	1,711	1,866	2,123	2,315	2,508	2,722	2,960	3,232	n.a.
Debt service (billions of CFA francs)	248	297	319	322	323	319	320	320	326	335	352	391	425	464	n.a.
Net Foreign Assets Central Bank (billions of CFA francs)	561	832	914	1,003	1,102	1,210	1,328	1,459	1,601	1,758	1,931	2,120	2,328	2,556	2,806
CFA francs/SDR (period average)	784.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8	787.8
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

[1] Data are projections

[2] On October 3, 2016 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF till end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter.

[3] Total debt service includes IMF repurchases and repayments.

Table 9. Benin: Financial Soundness Indicators 2011–17

	2011	2012	2013	2014	2015	2016	2017
	(Percent unless otherwise indicated)						
Regulatory capital to risk-weighted assets	12.5	12.8	12.9	12.7	12.6	9.5	12.4
Core capital to risk-weighted assets[1]	11.7	11.9	11.8	11.2	10.5	7.6	10.7
Provisions to risk-weighted assets	10.7	10.8	10.3	10.7	11.7	15.6	16.4
Capital to total assets	7.3	7.3	7.2	6.7	5.7	3.8	4.9
Composition and quality of assets							
Total loans to total assets	55.2	55.0	55.9	54.6	53.1	39.3	43.3
Concentration: Credit to the 5 largest borrowers (in terms of total capital)	92.9	92.3	75.1	88.6	113.1	...	355.1
Credit by sector[2]							
Agriculture, Forestry, and Fishing	2.9	2.6	2.9	3.1	3.2	...	...
Extractive Industries	2.2	1.6	1.8	2.0	2.0	...	...
Manufacturing	18.8	18.2	17.0	17.9	17.2	...	...
Electricity, Water, and Gas	3.2	3.2	3.7	3.9	4.2	...	...
Buildings and Public Works	6.7	6.7	7.8	8.7	9.4	...	...
Commerce, Restaurants, and Hotels	32.3	34.7	33.5	31.1	31.5	...	...
Transportation and Communication	11.2	10.0	11.2	9.3	9.5	...	...
Financial and Business Services	5.5	6.1	6.0	6.5	6.6	...	...
Other Services	17.2	16.8	16.2	17.0	16.4	...	...
Non-Performing Loans (NPLs)							
Gross NPLs to Total loans[3]	15.9	16.0	15.5	14.4	14.4	21.4	19.5
Provisioning rate	64.2	63.4	61.0	62.8	62.8	63.2	66.5
Net NPLs to total loans	6.4	6.5	6.6	6.1	5.9	9.1	7.5
Net NPLs to capital	47.8	48.8	51.1	50.0	54.9	95.2	66.6
Earnings and profitability[4]							
Average cost of borrowed funds	2.4	2.5	2.8	2.4	2.4	...	...
Average interest rate on loans	9.7	9.8	10.7	9.1	2.4	...	...
Average interest margin[5]	7.3	7.3	7.9	6.7	6.4	...	...
After-tax return on average assets (ROA)	1.2	0.9	0.9	1.1	1.2	...	...
After-tax return on average equity (ROE)	13.7	10.1	11.5	15.5	16.4	...	...
Noninterest expenses/net banking income	61.6	61.0	60.7	58.6	58.6	...	...
Salaries and wages/net banking income	26.4	25.7	26.5	25.4	25.4	...	...
Liquidity							
Liquid assets to total assets	33.6	32.5	32.2	30.9	29.4	...	...
Liquid assets to total deposits	46.1	45.8	46.1	45.9	43.8	...	...
Total loans to total deposits	84.3	86.2	90.0	89.5	87.0	68.4	73.4
Total deposits to total liabilities	72.9	71.1	68.5	63.4	67.1	57.4	59.0
Demand deposits to total liabilities[6]	37.8	36.5	35.5	34.5	35.4	24.3	26.3
Term deposits to total liabilities	35.1	34.6	33.0	32.8	31.7	33.1	32.7

Source: BCEAO.
Note: ... = not available.
[1] Tier 1 Capital.
[2] Identified sectors represent at least 80 percent of credit
[3] The improvement of NPLs since 2014 includes the reduced exposure by several banks to a business group that encountered difficulties in 2012-14.
[4] Some account elements available semi-annually.
[5] Excluding taxes on banking operations.
[6] Including savings accounts.

Annex I. SDGs Achievement and Spending Needs[1]

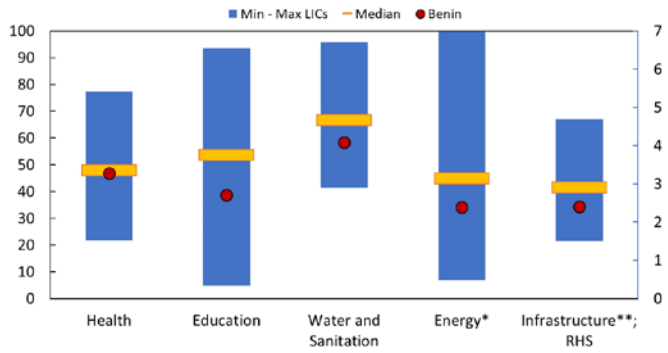
A. SDGs Performance

There is strong ownership of the SDGs in Benin. Achieving the SDGs is an overarching objective for the government and is one of the anchors of Benin's strategic documents, in particular the National Development Plan. The authorities have created a general directorate under the Ministry of Planning and Development to coordinate policies and public interventions related to the SDGs. The directorate prepares national reviews every year and supports the government in prioritizing the SDGs targets that fits Benin's needs.

Despite strong ownership, Benin is still a long way from achieving the SDGs (Figure A.I.1).

- In **education**, Benin has a relatively high net enrollment rates for a LIC—96 percent at primary school. However, various indicators that measure the quality of the education system, signal weaknesses. For example, there are high repetition and drop-out rates—27 percent of the 9 to17-years-old are out of school. In addition, Benin performs poorly with respect to the literacy rate of the 15-24-year-old.
- In **health**, the authorities are making important efforts—e.g. plan to introduce free health insurance for vulnerable groups—but the country faces typical challenges of a low-income country. Indeed, the country performs poorly in many health indicators. In addition, the staffing of the health system is quite low comparing to peer countries—0.2 doctors per 1000 population against 1.2 in peers.

Figure A.I.1. Benin: SDGs Performance



Source: IMF staff calculations using Sachs, J., Schmidt-Traub, G., Kroll, C., Durand-Delacre, D. and Teksoz, K. (2017): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN). Note. *Indicator: Access to electricity (percentage of population) and **Indicator: Quality of Infrastructure.

[1] The methodology used to assess the cost of reaching the SDGs on education, health and infrastructure considers the main inputs required to achieve a "high relative performance" in each sector. For instance, the inputs used to estimate education needs include the number of teachers per student; or health needs partly reflect the number of doctors per habitant. In each sector, an SDG index is computed to assess how the country performs relative to its peers in terms of outcomes; the score lies between 0 (worst performer) and 100 (best performer). "High relative performance" is defined as a SDG index score greater or equal to 70-80 (depending on the sector). Benin is benchmarked against a sample of LICs (countries with GDP per capita lower than $3,000) that have achieved good outcomes.

- In **water**, achieving universal access on water is within reach. Current access to water supply is 68 percent in rural area, and 85 percent in urban area. However, there is a poor performance on sanitation. Only 20 percent of the population has access to improved sanitation.

- **Electricity** is the Achilles heel of Benin. Only 41 percent of the population has access to electricity and power outages are more frequent than in other SSA countries. In addition, domestic production covers only 12 percent of the domestic consumption because: (i) the cost of importing is much lower than the cost of generating electricity domestically, and (ii) local production is disincentivized by the low regulated price charged to consumers.

- **Road** is vital to the country's development agenda. Indeed, road is the most used system of transportation in Benin. Roads account for 93 percent of the transportation of people and 73 percent of the transportation of goods[2]. However, paved roads account for only 45 percent of total roads, are mostly in urban area, and are not systematically maintained.

B. Costing of the SDGs

IMF staff worked with authorities and development partners to estimate the considerable spending needs necessary to achieve the SDGs in Benin (Table A.I.2).

- In **education**, additional spending needs are sizeable and reflect mostly the necessity to improve the quality of the system, for example by decreasing the student-to-teacher ratio.

- Spending needs on **health** are even more sizeable and Benin should almost double its health spending to achieve the SDGs. This amount would allow hiring 8 times more doctors and 4 times more support staff.

- **Sanitation** accounts for 70 percent of the total estimation of spending needs necessary to achieve the SDG on water and sanitation given the good performance on water.

Table A.I.1. Benin: Additional Spending in 2030

(Percent of GDP)

Education	3.2
Health	5.1
Water & Sanitation	2.5
Electricity	2.4
Road	8.1
Total	**21.3**

Source: Benin authorities and IMF staff calculations.

- In **electricity**, spending needs to ensure universal access to electricity are relatively manageable given reasonable increase in consumption per user per year in Benin.

- Improving access to **road**, particularly in rural area, will be more challenging.

[2] Benin : Document de Stratégie Pays, 2017-2021, Banque Africaine de Développement, 2017.

Financing the SDGs will require strong involvement of the private sector, mobilizing donor funds, and strengthening domestic revenue mobilization (DRM). Benin's macro-fiscal position is gradually improving under the ECF. The authorities are rationalizing current expenditures, improving the efficiency of public investment, and strengthening DRM (Annex III). The created fiscal space could partly help finance the SDGs. The government is anticipating strong private sector involvement under the GAP. The authorities have finalized a new legal framework for PPPs and Benin is a full participant in the G20 CwA. In addition, Benin will need strong support from the donors' community through the provision of grants and highly concessional financing.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
External Risks			
Weaker-than-expected global growth and global trade slowdown	**Medium-High**	**Medium** Negative impact on Benin exports, which would transmit to growth and fiscal position	Strengthen the business climate to diversify export markets; preserve fiscal space for countercyclical policy; reinforce the resilience of the banking sector by building up capital buffers
Adverse developments in Nigeria	**Low**	**High** Slower recovery and adverse security situation would reduce trade revenues, and growth; subsidy cuts in Nigeria can cause fuel price spikes in Benin	Accelerate the structural transformation of the economy to lessen its dependence on Nigeria; improve the business environment to support private sector growth and diversification
Sharp tightening of global financial conditions	**High**	**Low** A tightening of the ECB policy would be transmitted to financial conditions of the WAEMU region due to the peg. Would raise sovereign debt service	Reduce non-priority spending to accommodate higher interest bill and preserve programmed fiscal targets; prompt banks to better manage refinancing risk
Domestic Risks			
Rise in interest rate on regional financial markets	**Medium**	**Medium** Higher costs of domestic borrowing for government	Rely predominantly on concessional financing; optimize debt portfolio (debt reprofiling); adjust public investment level to reduce borrowing needs, if necessary
Adverse weather conditions	**Medium**	**High** Adversely affect agricultural output and exports; increase subsidy needs; and reduce the population's living standards	Mitigate the impact on the poor through targeted fiscal spending and transfers
Policy implementation risks, including due to social-political disturbances (strikes) or elections	**Medium**	**High** Interruption of the reform agenda; lower revenue mobilization and higher current expenditure, resulting in a deterioration of fiscal position	Build coalition of stakeholders to support the program; implement contingency plans, such as offsetting cuts in non-priority spending or; reprioritize public investment
Intensification of financial sector vulnerabilities	**Low**	**Low** A surge in non-performing loans could deteriorate confidence and affect banking sector stability	Step up the monitoring of financial sector developments. Consult with the regional banking commission and communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Rationalizing Tax Expenditures in Benin

Tax exemptions[1] are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. Many tax exemptions are costly both from the economic and budget points of view. They complicate revenue administration; create incentives to raise tax rates, which reduces the efficiency of tax system; lower tax compliance (by making the tax system more complicated); and, more generally, undermine transparency. Nonetheless, not all tax expenditures should be eliminated. Some are justified in specific circumstances. For administrative reasons, exemptions can be warranted when it is complicated to determine the taxable base (e.g., financial and insurance services). Other justifications include equity considerations (e.g., education, medical or social welfare services, and basic goods consumed primarily by the poor) or the need to incentivize certain activities (e.g., tax breaks to support research).

A. Stocktaking of Tax Expenditures in Benin

Tax expenditures are high and increasing in Benin. To improve fiscal transparency, the WAEMU Commission requires, since 2015, that its country members assess and publish their tax expenditures. In 2013, tax expenditures were estimated in Benin at CFAF 75.2 billion (1.7 percent of GDP). By 2016, they more than doubled to CFAF 153.3 billion, or 23.9 percent of total tax revenues and 3.0 percent of GDP[2]. By comparison, in 2016, tax expenditures in Côte d'Ivoire were estimated at CFAF 439 billion or 7.1 percent of total tax revenue and 2.0 percent of GDP.

Tax expenditures are likely to be underestimated. The authorities do not have a complete inventory of all tax expenditures. 73 different tax expenditures are currently identified but several other measures that are sources of tax exemptions are contained in the general code of taxes. The absence of a tax reference system that would allow better estimating tax expenditures as well as low capacity on tax matters are factors explaining the underestimation (Rota-Graziosi and Blouin, 2018[3]).

The private sector is the main beneficiary of the tax expenditures. An analysis of tax expenditures by sectors and beneficiaries reveals that the private sector benefits from about 78 percent of tax exemptions. Sectors in which the private sector plays a key role—industry, telecommunication, agriculture, infrastructure and transport—account for more than 60 percent of tax expenditures. This situation reflects the will of the authorities to promote the development of private activities without fully considering the potential implications of such tax expenditures on equity and efficiency.

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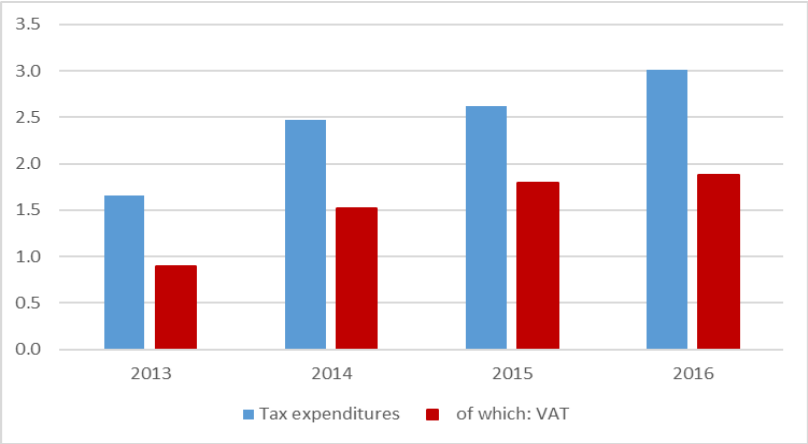
[1] Tax expenditures and tax exemptions are used interchangeably in this annex despite slight differences.

[2] The IMF assesses tax expenditures at 2.4 percent against 3 percent by the authorities. The difference between the two estimates stems from the IMF's reprocessing of certain exemptions that are not considered as tax expenditures by the WAEMU directive.

[3] *Analyse des dépenses fiscales au Benin* by G. Rota-Graziosi and N. Blouin (2018).

VAT accounts for the bulk of tax expenditures. The efficiency of VAT collection—the so-called C-Efficiency[4]—in Benin is very low—20 percent against an average of 42 percent in other WAEMU countries[5]. One possible reason is the extent of exemptions (Figure A.III.1). VAT exemptions are the main component of total tax expenditures in Benin, and account, on average, for 62 percent of total tax expenditures. In addition, VAT exemptions increased by 1 percentage of GDP over three years to reach 1.9 percent in 2016.

Figure A.III.1. Benin: Total Tax Expenditures and VAT Exemptions



Sources: Benin authorities and IMF Staff calculations.

Note: The share of VAT tax expenditures in 2014 is computing using simple average between the shares of VAT tax expenditures in 2013 and 2015.

B. Government Plan to Reduce Tax Expenditures in 2018-19

The authorities eliminated the tax expenditures for GSM mobile phone companies in 2018. GSM mobile phone companies have benefited from tax exemptions since 2007 for a period of 3 years renewed twice and then extended for a period of 5 years in 2013. Since June 2018 these exemptions are not been renewed. This is expected to lead to budgetary savings of 0.3 percent of GDP per year from 2019 (Table A.III.1).

The 2019 budget law foresees further reduction in tax expenditures. In addition to other tax measures equivalent to 0.3 percent of GDP, the 2019 budget plans to eliminate 0.9 percent of GDP of tax exemptions (in particular on the valued added tax) in order to enhance revenue mobilization (Table A.III.1). Other motivations for the removal of the selected tax expenditures include: (i) alignment with WAEMU directives; (ii) the taxation of project aid, in line with the recommendations

[4] C-efficiency is defined as: (VAT revenue) / [(private consumption * (standard VAT rate)].

[5] See analysis in IMF Country Report No.18/217.

of the International Tax Dialogue forum (Rota-Graziosi and Blouin, 2018); and (iii) the fight against smuggling.

Table A.III.1. Benin: Expected Gains in 2019 from the New Tax Measures

	Expected gains (in percent of GDP)
(1) Elimination of tax expenditures in the 2019 budget law	**0.9**
Value added tax	0.4
Sales tax	0.2
Transaction tax	0.2
Customs tax	0.1
Corporate income tax	0.1
(2) Non-renewal of tax exemptions for GSM companies	**0.3**
(3) = (1) + (2) Total decrease in tax expenditures in 2019	**1.2**
(4) Other tax measures in the 2019 budget law	**0.3**
Tax on exported soybean and cashew at a rate of 50 francs per kilogram	0.1
Other tax measures[1]	0.2
(3) + (4) = Total increase in tax revenue ratio between 2018 and 2019	**1.5**

[1] Include: Increase specific duties on tabacco by 10 percent; extension of the scope of the tourist tax in hotels and similar establishments; tax levied on sales of hydrocarbons made in Benin by non-resident people; solidarity tax for the promotion of sport; and extension of the synthetic business tax to micro and small enterprises.

Sources: Benin authorities and IMF Staff calculations.

Annex IV. Capacity Development Strategy for FY 2019

Overall Assessment

Implementation of macroeconomic and structural policies in Benin has generally been satisfactory. The authorities show strong ownership of the program and underlying reform agenda. The CD program in Benin and the associated TA delivery are intrinsically interweaved with the ECF arrangements' priorities. Nonetheless, coordination and capacity issues, data gaps, high staff turnover at both senior and technical levels, and limited resources allocation weigh on the overall impact of capacity development (CD) activities.

Objectives and Achievements

As a low-income country, Benin faces capacity and institution building challenges, which are being addressed with tailored technical assistance. Enhancing domestic revenue mobilization (revenue administration and tax policy), increasing the efficiency of public expenditures particularly capital spending, and improving budget preparation and execution will be essential to preserve debt sustainability in the longer term and boost growth. These key priorities will also require reforms to strengthen economic governance (in particular through more effective public finance management systems) and improve real sector statistics, government, and external sector statistics, including, oversight of public enterprises.

Program engagement has contributed in the past to build capacity in Benin. However, there have been highs and lows regarding TA implementation. Key achievements include the following:

- Creation of a Single Treasury Account;
- Increased capacity to formulate economic and financial policies under the ECF-supported program, including macroeconomic forecasts (2015–17);
- Enhanced production of budget execution data and reports (2015–17); and
- Better performance of the tax and customs administrations, and better assessment of tax expenditures.

Nonetheless, there is room to improve the impact of the CD activities with more efforts needed to increase the efficiency of public expenditures and strengthen further public debt management.

Forward-Looking Priorities

The TA strategy for Benin should focus on revenue and customs administration, tax policy, PFM, debt management, national accounts, and enhancing the quality of macroeconomic data. In particular:

- Public Investment Management (PIM), needs to be improved to ensure efficiency and transparency in investment project selection, and monitoring.
- An SOEs unit was created in 2017, but oversight is weak and still need to be strengthened and consolidated.
- Assessment of tax expenditures needs to be more comprehensive.
- Internal audit and control methods need also to be strengthened by using professional standards and systematic risk-based approach—in particular, related to budget execution control and external audit including full implementation of the Court of Accounts.
- To promote financial stability, the authorities should continue strengthening the risk-based supervision of banks and micro finance institutions and reinforce the crisis resolution framework.

For FY2019, key priorities and objectives include:

Priorities	Objectives
Tax Policy	• Minimize tax expenditures and improve the efficiency of VAT
Tax Administration	• Strengthen tax compliance and improve its cooperation with customs
Customs Administration	• Improve management and governance
Public Financial Management	• Consolidate progress on the medium-term expenditure framework
	• Enhance the efficiency of public spending
	• Improve risk assessment and monitoring of contingent liabilities (SOEs and PPPs)
	• Strengthen fiscal reporting and accounting
Statistics	• National account: update base year and move to 2008 SNA, including rebasing of national accounts;
	• External statistics: improve both current and financial account data collection and quality
	• Enhance e-GDDS

The main risk to capacity development is weak absorptive capacity, which could be mitigated by carefully selecting and designing the TA programs to tailor to the local audience's needs.

Authorities' Views

The authorities approve the orientation of the capacity building strategy. They consider that the strategy and objectives are formulated in an appropriate manner for the country and are consistent with the strategic orientations of the GAP, 2016–21. Given the current absorptive capacity of technical assistance, the authorities have recommended that volumes and medium-term priorities be adjusted appropriately to achieve effective delivery.

Appendix I. Letter of Intent

THE MINISTER

Cotonou, November 19, 2018

TO

Madame Christine LAGARDE
Managing Director
International Monetary Fund
WASHINGTON, DC 20431, USA

Dear Madame Lagarde:

I am pleased to inform you that Benin has made significant progress owing to the implementation of the Government Action Program (GAP). Implementation of the GAP, along with the introduction of important structural reforms in the context of the economic and financial program (2016-2019) concluded with the International Monetary Fund (IMF), have led to a sustained economic growth in a context of low inflation, control of the budget deficit, and a favorable outlook for the current account balance in the medium term.

The economic recovery that began in 2016 is ongoing. In 2017, it was essentially driven by public investment, cotton production and the exit of the recession in Nigeria. Growth should continue to intensify this year, in part owing to strong activity in the port. Inflation became slightly positive in 2017 (0.1 percent), fueled by the increase in the prices of food products and transport. It continued to rise in the first half of 2018, reaching 0.9 percent in September.

The budget deficit (including grants) was held at 5.9 percent of GDP in 2017, well below the initially programmed level (7.9 percent of GDP), essentially reflecting the mobilization of more resources than initially programmed. The deficit should shrink further in 2018, to 4.7 percent of GDP. For 2019, the budget estimates a deficit under the threshold of 3 percent of GDP, bringing us into compliance with the WAEMU fiscal convergence criterion.

Finally, the current account deficit (including grants) deteriorated in 2017 owing to higher investment-related imports, but it should begin to contract this year as exports increase.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in the implementation of the economic and financial program supported by the Extended Credit Facility (ECF) and presents the additional measures that we will take to shore up our achievement of the main objectives for 2019. In this context, we propose two new structural benchmarks relating to the elimination of selected tax expenditures in the 2019 budget, and an additional audit of the stock of former governments' unpaid services to suppliers.

Overall, the results of the economic and financial program are satisfactory. All of the quantitative performance criteria for end-June 2018 and the continuous performance criteria have been met, with the exception of the criterion on the non-accumulation of domestic payments arrears. A small, temporary, non-cash-flow related accumulation of arrears (0.04 percent of GDP) was observed over March-June 2018 owing to institutional changes on the managerial and technical teams in the public debt agency, the Autonomous Amortization Fund (CAA). Steps were taken promptly by the government to ensure that this did not happen again, particularly by replacing the managerial team, making organizational changes and introducing a systematic monitoring system. We therefore request a waiver for the non-observance of this continuous performance criterion. It should be noted that all of the structural benchmarks were met on time, with the exception of the adoption of a legal and regulatory framework for public investments, which took place in November 2018 rather than in September.

The government is convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of its program. It will take all additional measures that may be necessary to this end and will consult the IMF on the adoption of such measures prior to any revision of the policies outlined in the attached MEFP, in accordance with the Fund's policies concerning such consultations. The government will provide IMF staff with any information that may be needed to monitor implementation of the program and achievement of the program objectives, as set out in the attached Technical Memorandum of Understanding (TMU). The government authorizes the IMF to publish this letter and its attachments on its external website, as well as the IMF staff report, following approval by the IMF Executive Board of the third review under the ECF arrangement.

The government would therefore like to request the completion of the third review under the ECF arrangement, a waiver for the non-observance of the criterion on the non-accumulation of domestic payments arrears, and the disbursement of SDR 15.917 million (around $22.420 million).

Sincerely yours,

/s/

Romuald WADAGNI

Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2018–19

This report is an update of the Memorandum of Economic and Financial Policies (MEFP) of June 2018, attached to the staff report for the second review of the ECF-supported program. The document describes recent economic developments and sets out the policies that the government intends to implement in the 2018-19 period. The aim of these policies is to facilitate the continuation of fiscal consolidation and domestic revenue mobilization efforts, as well as strengthen domestic and external economic stability. Implementation of the quantitative performance criteria and structural benchmarks up to end-June 2018 will be assessed in this MEFP, and those for 2019 will be included.

RECENT ECONOMIC DEVELOPMENTS

1. The recovery of economic growth begun in 2016 continues. In 2017, growth was essentially driven by public investment, the record level of cotton production, and the recovery of the Nigerian economy. The secondary sector (construction and public works in particular) and the primary sector (agriculture in particular) were the main contributors to growth in 2017, estimated at 5.8 percent. The initial estimates point to more accelerated growth in 2018, owing to the strong performance of the port sector, particularly the significant increase in transit traffic to other countries that use the Port of Cotonou. Inflation became slightly positive in 2017 (0.1 percent), as a result of rising food and transport prices. Inflation continued to increase in the first six months of 2018, reaching 0.9 percent in September 2018.

2. The current account deficit (including grants) worsened in 2017 as a result of high import volumes related to public investments. Thus, despite a rise in exports linked to strong cotton production outcomes, the deficit is estimated at 9.9 percent of GDP in 2017. It is expected to begin narrowing this year, in response to the increase in exports. Benin's external position is expected to continue improving in the years ahead, owing to the growth of exports driven by the resurgence of the cotton sector and a decline in imports caused by the slowing of public investment.

3. Fiscal consolidation continues in 2018. The containment of expenditure and the improvement in domestic resource mobilization led to an estimated fiscal deficit (on a commitment basis, grants included) of 4.7 percent of GDP in 2018, compared to 5.9 percent of GDP in 2017. The mobilized revenue at end-September 2018 amounted to CFAF 714.6 billion, compared to an initial program target of CFAF 707.1 billion. This strong revenue performance is explained by the very good performance of nontax revenue (CFAF 148.0 billion, compared to an initial target of CFAF 94.7 billion), which made up for the shortfall in customs revenue (CFAF 31.50 billion) and tax revenue (CFAF 14.3 billion). However, it should be noted that most of the customs and tax shortfall occurred in the first half of 2018. An improvement in revenue performance was observed in the third quarter of 2018.

4. A full debt sustainability analysis (DSA) was carried out for Benin in October 2018, in conjunction with the launch of the new framework for analyzing the debt sustainability of low-income countries. The results of the assessment confirm the moderate risk of debt distress, which has not changed since the conclusion of the December 2017 DSA. However, because of delays in the disbursement of foreign commitments, the government's increased reliance on the regional financial market offering less concessional terms for the financing of public investment projects under the Government Action Program (GAP) increased the present value of the debt, from 42.7 percent in 2016 to 49.3 percent of GDP in 2017 and 48.7 percent of GDP in 2018. Moreover, the ratio of total debt to GDP went from 49.7 percent of GDP in 2016 to 54.4 percent in 2017, owing in particular to the domestic debt burden.

In the banking sector, the banking system's capital ratio strengthened, going from 9.5 percent at end-December 2016 to 12.4 percent at end-December 2017, thanks to the ambitious reforms undertaken by the regional central bank (BCEAO) to modernize the financial sector in accordance with the Basel II/III principles. These reforms include a gradual increase in the minimum capital requirement, as well as the entry into force of a new prudential arrangement and a new accounting framework, effective January 1, 2018. The liquidity ratio (total loans/total deposits) stood at 73.4 percent at end-December 2017. The heavy concentration of the bank loan portfolio (loans to the 5 largest borrowers/net worth) remains a source of concern. Moreover, Benin's banking sector now includes a new bank named Sonibank. This brings the total number of banks to 15. Finally, the high level of nonperforming loans persists, although a slight improvement was noted in 2017. The ratio of nonperforming loans to total loans fell from 21.4 percent in 2016 to 19.5 percent in 2017. As in the case of banks, the level of nonperforming loans in the microfinance sector remains high.

IMPLEMENTATION OF THE 2018 PROGRAM

A. Program Performance

5. Program implementation is satisfactory overall. The available data and information show that all the quantitative performance criteria (QPCs) at end-June 2018 were met. In addition, all the continuous performance criteria (CPCs) were met, with the exception of the CPC on the non-accumulation of domestic debt arrears: arrears totaling CFAF 2.3 billion (0.04 percent of GDP) were accumulated in the March-June 2018 period. These arrears, which were not attributable to a cash flow problem, were completely cleared by end-June 2018. Institutional changes in the management and technical teams of the debt management agency (CAA) led to a period of transition in the institution, which prevented strict debt monitoring. Steps were promptly taken by the government to prevent a recurrence of that situation, including organizational changes and the establishment of a systematic monitoring system. The status of the QPCs at end-June 2018 is as follows:

- *Net domestic financing (NDF) of the government),* defined as the sum of net bank credit to the government and net nonbank financing of the government, amounted to CFAF 71.1 billion under an adjusted ceiling of CFAF 205.9 billion.

- *The basic primary fiscal balance,* defined as the difference between total fiscal revenue and basic primary fiscal expenditures, amounted to CFAF 17.7 billon under a ceiling of CFAF 47.5 billion.

- *Total government revenue,* which includes tax and nontax revenue – but excludes foreign grants, the revenue of autonomous entities, and privatization proceeds – amounted to CFAF 475.1 billion, compared to a floor of CFAF 445.5 billion.

6. The strict implementation and monitoring of reforms led to observance of all the structural benchmarks (except one), in accordance with the timetable indicated in the three-year ECF arrangement. These measures pertained to: (i) the effectiveness of the revenue agencies; (ii) improvement of the management of public finances and debt; and (iii) the strengthening of governance and transparency. The prior action regarding the submission of a budget to the Parliamentary Commission that is consistent with the ECF-supported program was also completed. The adoption of a regulatory legal framework for public investment occurred in November 2018 instead of September.

B. Fiscal Management

7. Concerning the revenue agencies, the implementation of reforms aimed at modernizing the tax administration to ensure lasting improvement in revenue collection continues in 2018. In customs, progress was made in effective implementation of the one-stop foreign trade window (*Guichet unique du commerce exterieur*, GUCE), with the objective to minimize the use of paper documents in customs clearance operations. Since the first six months of 2018: (i) the GUCE portal is available; (ii) the interface between the GUCE and the goods tracking system to improve cargo monitoring is operational; and (iii) import intentions are now centralized in the GUCE, which, among other things, will help us improve our customs revenue forecasts. The Directorate General of Taxes (DGI) vigorously pursued the reforms introduced in 2017 within the framework of the tax administration's Strategic Orientation Plan (POSAF). The key reforms include: (i) the continuation of the bancarization of tax payments;[1] (ii) the rollout of the tax management system (SIGTAS) to improve operational transparency and contribute to the reduction of tax fraud; (iii) the launch in March 2018 of electronic procedures to enable the electronic filing and payment of taxes; and, finally, (iv) the launch of electronic billing machines to improve the collection of VAT. We will conduct an initial assessment of the electronic procedures and electronic billing machines by end-2019.

8. We also strengthened cooperation between these two agencies. Several IT developments were launched to facilitate information exchanges between customs and taxes. They include: (i) the establishment of a shared platform for tax-customs data exchanges; and (ii) the development of

[1] The share of revenue collected through bancarization in the total revenue collected by the DGI went from 17 percent in December 2017 to 36 percent in June 2018.

several integrated interfaces in the shared platform. The key capabilities integrated into the platform are: (i) keeping the comprehensive taxpayer directory up to date vis-à-vis the tax administration; (ii) automatic integration of the new Single Taxpayer Identification (*Identifiant fiscal unique*, IFU) numbers generated by SIGTAX; (iii) recognition by ASYCUDA of the activation/deactivation of taxpayers; and (iv) automatic integration of all paid customs declarations in ASYCUDA. However, a recent crosscheck of the two revenue agencies' data showed that some importers are still unknown to DGI staff. This means that cooperation between the two revenue agencies needs to be further strengthened. To begin with, we will ensure that the system of penalties applicable to importers unknown to the tax administration – fine of 10 percent, possibly increased by 3 percent – is assessed.

9. The implementation of reforms undertaken to ensure the rationalization of public expenditure continues in 2018. In terms of managing the wage bill, the reforms mainly concern: (i) census-payment operations focused on active and retired government employees, carried out with the aid of biometrics; (ii) bancarization of student's scholarships; and (iii) systematic bancarization of the periodic benefits of active employees and of pensions of CFAF 50,000 or more, etc. Steps were also taken to improve the effectiveness and transparency of public investments, including: (i) continuing the effort to clean-up the public investment projects (PIP) pipeline; and (ii) creating a "public investment preparation and management fund" to finance investment project feasibility studies.

10. Concerning public debt, the Autonomous Amortization Fund (CAA) has undertaken a number of capacity building activities this year, including the organization of seminars and workshops, in collaboration with the IMF and the World Bank. It also finalized its manual of procedures of and put in place internal and external debt audit mechanisms to determine the frequency and improve the effectiveness of audits. The CAA has also begun establishing various procedures related to the use of the debt database and has reorganized its management team with the appointment of a new Managing Director whose qualifications are more closely aligned with the challenges of debt management. A survey was conducted to get comprehensive data on the debt of public enterprises as well as their contingent liabilities. The resulting figures pertain only to the commercial debt of public enterprises. Moreover, to minimize the fiscal risks associated with public enterprise debt, the CAA is coordinating, in collaboration with the Directorate General of Government Holdings and Privatization (DGPED), a monitoring arrangement that provides for periodic meetings with the said enterprises.

11. Owing to the less concessional terms of financing obtained on the regional financial market and the associated rollover risk of the short-term domestic debt, we initiated a program to optimize the debt portfolio through a reprofiling operation. This arrangement consists of repurchasing certain short-term loans contracted with domestic creditors at high costs with the proceeds of a long-term loan contracted with an international commercial creditor at lower interest rates. The debt reprofiling operation, which was finalized in October, was financed with a guarantee of the World Bank. The guarantee amounts to EUR 154.8 million (equivalent to USD 180 million, corresponding to an IDA allocation of USD 45 million), for a commercial loan to the government denominated in

euros in the amount of EUR 387 million (equivalent to USD 450 million). We used two-thirds of the funds to buy back costly domestic debt, including debt owed to a regional development bank. The operation will help reduce the interest costs of public debt and extend its average maturity.

C. Governance Reforms

12. Important steps have been taken in the context of reforming the administrative control bodies. The objective of this reform is to facilitate the creation of a performance culture in the government and step up the fight against impunity by reorganizing the control bodies and implementing measures aimed at their professionalization, by: (i) making the Inspectorate General of Finance (IGF) the central body responsible for operational coordination of the activities of the government's internal audit units and for monitoring the actions taken by the various ministries in response to the main audit recommendations; (ii) putting the sectoral ministries back at the center of the ministries' internal control system; (iii) addressing the shortage of quality human resources within the government's internal audit bodies; (iv) reducing the vulnerability of audit institutions and increasing their contribution to the effectiveness of services; and (v) providing auditors with sufficient resources to perform their assignments. To that end, the government overhauled the regulatory framework with the issuance of three decrees. The new texts formalize a paradigm shift and provide for transitioning from the "inspection-verification" approach to the "internal audit" concept in all its forms. The aim of the new "internal audit" approach is to bring value added to managers, particularly through advisory assistance, with a view to attaining the strategic, operational, and regulatory objectives. The proposed texts will also enable Benin to adopt international standards and overcome the institutional and regulatory obstacles hindering the effectiveness of internal control and audit activities within the government of Benin.

13. In the areas of justice, important reforms have been undertaken this year. Two commercial courts were created and then inaugurated in 2018 following (i) the identification of buildings to house the Commercial Court of Cotonou and the Court of Commercial Appeals of Porto Novo, and (ii) the appointment of professional and consular judges, and the official installation of the courts in those two jurisdictions. In addition, the Court for the Repression of Economic and Terrorism Crimes (CRIET), which was installed in August 2018, is now operational. Its objective is to curb terrorism and economic crimes, as provided for in the criminal legislation in force, as well as suppress drug trafficking and related crimes.

14. Anti-corruption efforts are being strengthened thanks to the initiatives undertaken by the National Anti-Corruption Authority (ANLC) to implement the asset declaration regime laid out in the 2011 Anti-Corruption Law. In particular, the ANLC's measures are intended, among other things, to: (i) ensure that penalties are imposed by responsible Courts if the assets of individuals covered by the Law are not declared; and (ii) allow the online declaration of assets.

15. Finally, with regard to the observance of international governance standards, Benin ratified the United Nations Convention against Corruption in 2005, followed by the African Union

Convention Against Corruption and the ECOWAS anti-corruption protocol. The ANLC is also in the process of preparing an action plan for implementing the recommendations made following the assessment of the National Integrity System (SNI) carried out by Transparency International in 2016 with the support of the European Union. In addition, in June 2018 parliament adopted the new law on combating money laundering and the financing of terrorism, which will enable Benin to harmonize and strengthen its national regulations in conformity with the new measures under way in the West African Economic and Monetary Union, in order to fight financial crime.

D. Financial Sector

16. The main components of the Basel II-III capital regulations became effective in January 2018, including the definition of tier 1 capital, tier 2 capital, and the capital conservation buffer. These new prudential rules strengthen the measures increasing the minimum capital requirement, the second phase of which (from CFAF 5 billion to CFAF 10 billion) was completed on June 30, 2017. At end-June 2018, all the banks were compliant with this regulation. These measures are considered essential to safeguarding a sufficient buffer of high-quality capital, as well as strengthening banks' balance sheets. A new chart of accounts for banks and an accounting framework for loan loss provisioning in keeping with IFRS 9 were also introduced in January 2018. The standards on liquidity ratios aligned with the Basel II and III principles are being prepared at the regional level.

17. Together with the BCEAO, the government has a key role to play in ensuring the stability and soundness of the financial system. To that end, we are pursuing a number of structural reforms. The law on Credit Information Bureaus (CIB) was adopted by the National Assembly and promulgated on January 23, 2017 by the President of the Republic. **It will enter into full force no later than end-2018.** The adoption of this law formalizes the establishment by Benin of the necessary legal framework for the launch of CIB activities. In addition, the ministerial decree authorizing the opening of a branch office of "CREDITINFO-VOLO" in Benin was signed on February 1, 2018. Regarding the policy framework for bank resolution, the Annex to the agreement governing the WAEMU Banking Commission (BC) was amended by Decision No. 10 of 29/09/2017/CM/UMOA of the WAEMU Council of Ministers. As a result, the BC is now responsible for the resolution of credit institutions. The general framework for the resolution of institutions has been defined and the BC has a Resolution College. The government's objective going forward is to finalize the establishment of the credit bureau. We are aware that information concerning loans contracted prior to the establishment of the CIB and credit histories dating back more than 3 years are, for the time being, incomplete, due to the fact that banks must request the prior authorization of their customers to report such information to the CIB database. We are therefore looking at various legal options to remove that obstacle.

18. To strengthen the land reform and formalize the collateral used in lending activities, we created the National State Land and Land Tenure Agency (ANDF) in 2016, which, among other things, handles the conversion of occupancy permits into real estate titles. The initiative included in the 2016 Supplementary Budget Law to eliminate recording fees was successful, and the number of real estate titles recorded has grown. We will also work to advance the electronic recording of real

estate titles by extending the process to the entire country. In October 2018 we expedited the process by taking steps to make the publication of these titles more inclusive. We also established a Trade and Personal Property Credit Register (RCCM) and are planning to provide electronic access to the register. We will take steps to facilitate the acquisition and use of collateral to obtain bank loans. In addition, the implementation of these measures will enable banks to reduce the level of provisions and ultimately increase their capacity to lend to the private sector.

We believe that the microfinance sector is key to promoting small enterprises' access to the financial system. To preserve its viability and credibility, **we will adopt a ministerial decision for microfinance institutions aimed at strengthening their supervision and the granting of licenses.** Progress has been made in closing unauthorized microfinance institutions (MFIs). In addition, the regional financial inclusion strategy is being implemented. Steps have also been taken to rehabilitate the microfinance sector, particularly by improving the quality of financial and accounting information through the implementation in 2016 of the centralized I.T. solution for monitoring decentralized financial systems (SICS-SFD). In operational terms and with regard to supervision of the sector, in the year 2018, the National Decentralized Financial Systems Surveillance Agency (ANSSFD) continued implementing the microfinance sector rehabilitation strategy document, which is based on the following three pillars: (i) application of the law to all authorized DFSs; (ii) application of the law to all entities operating illegally; and (iii) continued strengthening of the stability and balanced operation of the decentralized finance sector with a view to ensuring its long-term sustainability. To that end, a national census of microfinance initiatives will be carried out to update the list of institutions operating on the fringes of regulation.

PROGRAM FOR 2019

19. The objective of the three-year program (2017-2019) signed by the IMF and the government of Benin is to lay the foundation for accelerated and inclusive growth while preserving macroeconomic stability and public debt sustainability. Implementation of the reforms is expected to make it possible to: (i) create more fiscal space through the mobilization of additional domestic resources; (ii) enhance the efficiency of public expenditure, particularly investments, and (iii) improve governance and the business environment with a view to stimulating private sector activity. The macroeconomic framework envisages growth of 6.5 percent, supported essentially by the strong performance of the agricultural sector, increased private sector investment, the positive effects of Nigeria's economic recovery, and heavy port traffic. Following the jump in food and oil prices in 2018, inflation is projected at 2.0 percent on average in 2019. The current account deficit (including grants) is expected to narrow to 8.2 percent of GDP in 2019, thanks to the sustained growth of exports in response to the revitalization of the cotton sector and a decline in imports driven by the scaling down of public investment.

A. 2019 Budget Law

20. In December 2018, the National Assembly passed the 2019 Budget Law in accordance with the draft submitted by the government and the program objectives. The fiscal deficit, on a

commitment basis (grants included), is expected to reach 2.7 percent of GDP in 2019, compared to 4.7 percent in 2018. Government revenue is expected to amount to 17.7 percent of GDP, while total expenditure would be contained at 22 percent of GDP, compared to 23.9 percent in 2018.

21. The 2019 Budget Law is based on exceptional tax revenue mobilization. Tax expenditures are expected to decrease by an amount equivalent to 1.2 percent of GDP in 2019 (**in part as a result of the elimination by the budget law of tax expenditure equivalent to CFAF 60 billion and the implementation of a system to control the exemptions granted under the special investment regimes**). In addition, the budget will adopt other tax-related measures such as a withholding tax on hydrocarbon sales carried out in Benin by nonresidents, enlargement of the base of the visitors' tax in hotels and similar establishments, as well as the transfer of responsibility for collection of the tax to the DGI, and an increase in the rate of the tax on tobacco and cigarettes. All these tax policy measures, coupled with the pursuit of revenue agency reforms, are expected to result in the mobilization of CFAF 1112.0 billion in government revenue in 2019. At the same time, we are continuing to rationalize public expenditure. It will decrease by 1.3 percent of GDP in 2019 owing to improved control of the wage bill and the decline in public investment.

22. We inherited from previous governments wage promises to civil servants as well as unpaid debt vis-à-vis domestic suppliers, some of which we decided to honor in 2019 to preserve the climate of social peace. The 2019 budget includes a provision of CFAF 20 billion to begin the process of settling these debts. **An audit will be conducted by end-January 2019 to update the estimated stock of services that were not paid to suppliers.**

23. Should the revenue generated by the tax reforms fall short of the budget forecasts, the government will ensure attainment of the fiscal deficit target by slowing the execution of public investment and the settlement of past wage promises to civil servants made by previous governments.

B. Public Expenditure Program and Efficiency

24. Pending the World Bank review of public spending, we have since 2016 undertaken to consolidate the wage bill. The key measures implemented to hold back the pace of wage bill increases have included: (i) the biometric census of civilian personnel, which identified 1,355 ghost workers; (ii) the bancarization of bonuses and allowances not included on pay slips since 2017; and (iii) the repeal of several decrees and regulations that systematically granted benefits. With the help of these measures, savings of about half a percent of GDP will be achieved in 2019 and will be allocated in part to clearing a portion of the wage promises made to civil servants by former governments. To improve the efficiency of public investment, we have begun to implement the recommendations of the Public Investment Management Assessment (PIMA) report, focusing on the following four areas: (i) strengthening the institutional framework; (ii) ensuring the availability and sustainability of financing; (iii) better preparing, selecting and implementing projects (specifically by publishing their selection criteria); and (iv) ensuring sustainable investments. An IMF Fiscal Affairs

Department mission planned for the first quarter of 2019 should help us prepare a midpoint review of the implementation of the PIMA report recommendations.

25. As well, a pilot phase of the government's social protection project—"*Assurance pour le renforcement du capital humain* ARCH''—will begin in late 2018, targeting poor populations for the first three quarters of 2019 and expanding to the general population starting in 2020. The government will cover the entire premium for those in extreme poverty and will provide a partial subsidy of the premium paid by populations categorized as impoverished but not in extreme poverty. The insurance system is based on an innovative mechanism for targeting poor populations and the establishment of a single social register in cooperation with the World Bank.

C. Public Debt Management

26. The Autonomous Amortization Fund (CAA) plans to continue its efforts to optimize the debt portfolio. The aim is in part to align the maturity of the debt with that of financed projects, and also to achieve a balanced distribution between the stocks of foreign and domestic debt. The CAA plans to update the 2017-2021 debt strategy document next year to better take into account the above objectives. It also plans to continue its capacity-building activities with assistance from Development Finance International (DFI) to modernize the public debt database management system and assistance from West AFRITAC to evaluate its organizational system following the 2015 reforms. The recruitment of qualified personnel to reduce operational risk also remains an objective. Implementation of the mechanism to monitor public enterprises should also be stepped up in the context of the medium-term debt strategy.

D. Public Enterprise Reform

27. Public enterprises continue to be a burden on the government budget owing to their weak economic and financial performance. Over the past four years, their contribution to the national budget in the form of taxes, levies and dividends stood at 0.3 percent of GDP while at the same time they received subsidies equivalent to 1.5 percent of GDP. New auditors have been appointed at the 189 public enterprises and government offices. The government has also validated the new draft law on public enterprises. This law, which has been submitted to the National Assembly but has not yet been adopted, covers the creation, organization and operation of public enterprises and aims to improve their governance and thus their economic and financial performance. The future law calls for close government monitoring of the economic and financial position of public enterprises, and public enterprises will henceforth be required to transmit their financial statements— supplemented with audit reports— to the Ministry of Economy and Finance by the prescribed deadline. Moreover, a consolidated report on the economic and financial position of public enterprises will be attached to the budget starting in 2019, once the law has been adopted.

28. To limit the impact of public enterprises on the budget, the government also plans to define a dividend policy for each enterprise in order to make them accountable for achieving results while

ensuring financial management consistent with their development. **The government has decided to conclude performance contracts with the main public enterprises by the end of 2018**. Such a contract is already in place for the Autonomous Port of Cotonou and one will soon be for the *Société Béninoise d'Énergie Électrique* (SBEE) with support from the Millennium Challenge Account. We plan to expand this measure to other public enterprises by end-2019 in the context of the new law.

E. Infrastructure Projects and Public-Private Partnerships

29. Following the establishment of the legal and regulatory framework for public-private partnerships (PPP) by Law 2016-24 of June 28, 2017, the government adopted implementing decrees to take account of the new institutional framework for the promotion of investment in Benin. The institutional framework has entered into effect, thanks in particular to technical assistance from the World Bank. Analysis of the options for financing GAP projects has led to the compilation of a catalog of PPP projects. In accordance with international best practices, we will ensure that: (i) investments in PPPs are included in the budget documents and public finance statistics; and (ii) liabilities relating to PPPs are assessed and annexed to the budget law. We will analyze the fiscal risks relating to these PPP projects.

30. As well, the government has entered into preliminary discussions with the People's Republic of China on a future partnership to finance the construction of the Glodjigbé International Airport. At this stage, the financing package and schedule of works have not yet been finalized. We will take adequate measures together with the IMF team to ensure that the financing of this project is reflected in the public accounts in accordance with international best practices, minimize the risks on public finances, and does not jeopardize public debt sustainability.

F. Business Environment

31. To make Benin an attractive destination for investors, a new investment promotion mechanism was put in place in 2017, streamlining the institutional and regulatory framework for investment promotion in Benin. The strategic plan included the creation of an Interministerial Investment Promotion Committee to improve government coordination on issues related to the business environment and to provide a coordinated response to the needs and expectations expressed by investors. At the operational level, the Agency for the Promotion of Investment and Exports (APIEX) has been restructured to become the sole gateway for investors and showcases the promotion of investments and exports in Benin. The APIEX is thus: (i) the one-stop window for business creation, making it possible to shorten the business creation time to a few hours; (ii) the technical body responsible for reviewing applications for approval under the Investment Code; (iii) the Executive Secretariat of the PPP Support Unit; (iv) the focal point for the implementation of the *Doing Business* reforms; (v) the administrative authority for the special economic zones; and (vi) the export information and facilitation center. As well, we amended and supplemented the land code in 2017, resulting in amending law 2017-15 of August 10, 2017. This new law shortens the time needed

to obtain real estate titles and removes the constraints on the purchase of real property for foreign investors.

32. Under the new arrangement, a specific institutional framework for implementing the *Doing Business* reforms has been adopted, along with a matrix of annual actions. Two draft laws designed to facilitate private investment have been finalized and submitted to Parliament for adoption (not yet adopted), one amending the investment code and the other focused on the promotion and development of micro-, small and medium-sized enterprises in Benin. The innovations introduced by the new Investment Code include:

- simplification of the approval mechanisms (three mechanisms with clear and precise incentives during the startup and operating periods, two alternative mechanisms to further encourage investors interested in the priority sectors of the national economy);
- professionalization of the processing of accreditation files, and time-limit on the technical decision;
- improvement of the investment monitoring system;
- incorporation of international best practices for the preparation of investment codes and, in particular, the comments provided by the UNCTAD on the existing code; and;
- structuring of incentives in such a way as to make Benin more competitive and ensure the consistency of its investment code provisions with the series of exemptions granted investors in the special economic zones, as well as with the specific government assistance initiatives designed to promote national entrepreneurship.

33. The aim of the Law on Micro-, Small, and Medium-Sized Enterprises (MPME) is to formalize the transposition into national law of the provisions of the WAEMU Community Charter for MPMEs adopted in December 2015. The key innovations involve:

- the establishment of a mechanism for the identification and categorization of MPMEs eligible for specific government measures and assistance;
- the establishment by law of an agency responsible for implementing the national policy on the promotion of MPMEs;
- Assistance and support measures for MPMEs, including market access facilities, protection against government payment delays, and the incentive to co-contract and subcontract with large enterprises;

- tax facilities and incentives for the creation and maintenance of MPMEs (for MPMEs that process local raw materials and for business incubators);

- measures to promote and finance MPMEs (technical assistance, facilities for access to land and developed sites, specific financing and guarantee mechanisms or institutions); and;

- measures to support struggling MPMEs.

34. As well, Parliament has adopted a new law on hiring that aims to promote job creation. This law has corrected a number of legal loopholes, particularly those relating to hiring for trial periods, which has long been unregulated, and the types of contracts, including fixed-term contracts, that can be renewed indefinitely. Moreover, the new law allows foreigners to work under open-ended contracts, whereas previously they only had access to fixed-term contracts. The new law also eases the licensing conditions and sets a maximum limit of 9 months of compensation in the event of dismissal l deemed abusive by the courts.

G. Financial System

35. One local bank is facing operational difficulties that could lead it to close its doors and have its license revoked by the WAEMU Banking Commission (BC). In view of this situation, the government has decided, after consulting with the Banking Commission, to purchase this bank at its equity value, estimated at around CFAF 10 billion. However, the government considers this rescue operation an exceptional event under specific circumstances. In the future, the government commits to consider assisting only banks that can be viewed as presenting a systemic risk to financial stability.

36. In the context of its support for the bank, the government is preparing a restructuring plan with a mechanism for divestment within approximately three years. The restructuring plan will be in line with international best practices, particularly in the areas of management and control, risk management, operations, the resolution of nonperforming loans, and capital and liquidity planning. In the interest of transparency and accountability, the government as owner will produce progress reports on the restructuring plan that will include an update of the estimated cost for the taxpayer.

37. To modernize the financial sector, the government has also, by Law 2018-38 of September 7, 2018, reactivated the Caisse de Dépôts et Consignations (CDC), which was created on August 31, 1973 by Order No. 073-60. It is a corporate body with financial autonomy whose essential mission is to receive and conserve movable assets deposited with it and to return them to their rightful owners. It is thus responsible for administering deposits and consignments, providing services relating to the cash and funds whose management is entrusted to it, and receiving administrative and court-ordered consignments and sureties. In general, the CDC has general interest missions in support of the public policies of the central and local governments, particularly in the areas of economic and social development. To achieve them, the CDC has put in place

investment and risk management policies and strategies that should enable it to better use resources and generate yields above the average cost of government borrowing. To this end it is adopting prudential rules in line with best practices for investment and risk management.

38. At the practical level, in the context of the modernization of the financial sector of Benin, the CDC will enable the government to: (i) hold equity in companies that it wishes to support or from which it simply wishes to receive dividends, like any shareholder; (ii) work alongside the banking system by making deposits in banks at reduced costs;[2] (iii) participate in the financing of social projects; and (iv) assist effectively in the financing of the economy by making public securities more attractive (proposed purchase of public securities at low rates by the CDC).

39. We also plan to continue to improve the capacity of the judges and courts to rule on financial matters. The new commercial tribunal will help to resolve business disputes. As in previous years, the BCEAO has, in the context of its training program for the judicial profession, undertaken to help build the capacity of judges and magistrates in matters relating to the WAEMU financial regulations.

40. To promote financial inclusion in Benin, the government has taken measures such as the creation of permanent mechanisms for the mobilization of resources by microfinance institutions (SFDs) and improved promotion and coordination of the microfinance sector.

41. To promote the sector, the National Microfinance Fund (FNM) has prepared a new strategic plan for 2017-2021, founded on the following three strategic pillars: (i) facilitating access to appropriate financial resources for microfinance institutions; (ii) building operational capacity and promoting social and technological interventions; and (iii) strengthening governance and the sustainability of FNM actions. In addition, the government, through the Ministry responsible for social affairs and microfinance (MASM), has begun preparing the FinScope survey, the first stage in the Making Access to Financial Service Possible (MAP) process, which is to culminate in the development of a national financial inclusion strategy in line with the regional financial inclusion strategy developed by the BCEAO. Finally, financial inclusion will be strengthened with the implementation in 2019 of the microfinance component of the Insurance to Build Human Capital (ARCH) project.

H. Rebasing of the National Accounts

42. Since 2016, the government has supported the project for the rebasing of the national accounts and implementation of the *2008 System of National Accounts* (*2008 SNA*). This initiative will lead to significant improvements in: (i) the quality and coverage of the data sources for the national accounts; and (ii) the incorporation of the *2008 SNA* innovations regarding the goods and services accounts. The National Statistics and Economic Analysis Institute (INSAE) received an IMF technical

[2] This will provide the banks with less expensive resources that they can use to grant loans to their customers at more competitive rates. Currently, support from banks to the private sector is severely limited by the very high cost of deposits.

assistance mission on the national accounts statistics in June 2018. The purpose of this mission was to assist INSAE in: (i) reviewing the estimation methods and the new additional information for the work to rebase the GDP; (ii) reviewing the sources for the revision of GDP, particularly the contribution of the informal sector; and (iii) analyzing the quality of the supply and use tables and the level of GDP in the new base year of 2015. Following this mission, it was apparent that a survey of informal cross-border trade (ECENE) was a priority to correctly estimate total demand and finalize the supply and use balances (SUB). INSAE has committed to conducting this survey, which involves four rounds of visits. Processing of the data from the first round of visits, which has already taken place, will begin in late October 2018, and the final revised estimates are expected no later than end-July 2019.

I. Quantitative Performance Criteria and Structural Benchmarks

43. Quantitative performance criteria have been set for end-June 2019 and indicative targets for end-March, end-September and end-December 2019 (table). The structural benchmarks for 2019, as well as their macroeconomic justifications, are described in the table. The fourth and fifth program reviews are expected to be completed on or after April 30 and October 31, 2019, respectively.

Table 1. Benin: Status of Quantitative Performance Criteria and Indicative Targets, 2018-19[1]

(Billions of CFA francs)

	March 31, 2018				June 30, 2018				September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
	Indicative Targets				Performance Criteria				Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets	Indicative Targets
	Prog.	Adjusted	Prel.	Status	Prog.	Adjusted	Prel.	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]														
Net domestic financing of the government (ceiling)[3,4,5]	74.7	89.7	43.0	Met	190.9	205.9	71.1	Met	103.0	118.8	15.0	45.9	68.8	36.0
Basic primary balance (excluding grants) (floor)	-69.7		-18.5	Met	-47.5		-17.7	Met	-20.3	3.9	15.6	44.5	47.7	120.7
Total revenue (floor)	204.8		209.5	Met	445.5		475.1	Met	707.1	1021.6	235.1	505.5	762.5	1112.4
B. Continuous quantitative performance criteria (ceilings)														
Accumulation of external payments arrears	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9		24.3	Met	468.9		125.0	Met	468.9	468.9	468.9	468.9	468.9	468.9
Accumulation of domestic payments arrears	0.0		2.3	Not Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Contracts by the government for the prefinancing of public investments projects	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
C. Memorandum Items[2]														
Priority social expenditure (floor)	15.0		35.8	Met	50.0		79.3	Met	101.0	167.0	37.2	82.5	140.7	180.0
Memorandum item: Budgetary assistance	22.6		0.0		22.6		0.0		39.6	55.4	0.0	0.0	22.8	45.4

Sources: Beninese authorities; IMF staff estimates and projections.

[1] The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

[2] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

[3] The performance criterion on net domestic financing is automatically adjusted as indicated in the TMU.

[3] The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

[4] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU.

[5] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.

Table 2. Benin: Structural Benchmarks for 2018–19 and Macroeconomic Rationale

Measures	Dates	Rationale	Status
Submit a 2019 budget that is consistent with the ECF-supported program to the parliamentary commission for consideration.	**Prior action for Third Review**	Preserve fiscal sustainability.	Met
Revenue mobilization			
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	Met
Implement a plan to strengthen tax compliance.	June 2018	Increase fiscal revenues by improving tax compliance-risk management.	Met
The 2019 adopted budget eliminates tax expenditures equivalent to FCFA 60 billion (MEFP ¶24).	December 2018	Foster revenue mobilization.	
Implement the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones (MEFP ¶24).	June 2019[1]	Fight fiscal fraud and rationalize exemptions.	
Public financial management			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State.	June 2018	Improve economic governance.	Met
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Increase transparency, timeliness and accuracy of budget information.	Met

[1] The deadline is revised from December 2018 to June 2019, since the authorities want to incorporate the measure in the future investment code.

Table 2. Benin: Structural Benchmarks for 2018–19 and Macroeconomic Rationale (concluded)

Measures	Dates	Rationale	Status
Adopt a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify governance weaknesses.	Not met (implemented in November 2018)
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at the end of December 2018 (MEFP ¶25).[1]	January 2019	Enhance fiscal transparency.	
Financial sector			
The Ministry of Finance should establish a credit bureau (MEFP ¶19).[2]	December 2018	Improve crisis management.	
The Ministry of Finance should adopt a legal decision to strengthen the implementation of the regulatory framework for the licensing and supervision of microfinance institutions (MEFP ¶21).[3]	December 2018	Promote financial inclusion	
State-owned enterprises reform			
Complete the data collection of SOEs' debt and operationalize the monitoring framework.	September 2018	Better monitor contingent liabilities and improve public debt management.	Met
Set performance contracts with key SOEs (MEFP ¶31).	December 2018	Improve SOEs contribution to government revenues.	

[1] The unpaid services to suppliers were inherited from the previous governments.

[2] The SB was simplified, since bank resolution measures are not the responsibility of national authorities.

[3] The SB was edited to be more specific about the type of measure taken by the Ministry of Finance.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (the "Memorandum") defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Benin's program supported by the Extended Credit Facility (ECF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

PROGRAM ASSUMPTIONS

2. **Exchange rates under the program.** For the purposes of this Memorandum, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.[1]

CFAF/US$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

DEFINITIONS

3. Unless otherwise indicated, "government" is understood to mean the central government of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government's flow-of-funds table (*Tableau des opérations financières de l'État*, TOFE).

4. The definitions of "debt" and borrowing for the purposes of this Memorandum are set out in point 8 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended on December 5, 2014 by Executive Board Decision No. 15688-(14/107):

(a) **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets

[1] 2018 exchange rates as at August 18, 2017.

(including currency) or services at some future point(s) in time, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms; the primary ones being as follows:

i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the seller in the future (such as repurchase agreements and official swap arrangements);

ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;

iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property; and

iv) Treasury bills and bonds issued in *Communauté Financière Africaine* (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public debt for the purpose of this Memorandum.

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

(b) The present value of the loan will be calculated using a single discount rate set at 5 percent.

(c) For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -200 basis points.[2] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and

(d) Domestic debt is defined as debt denominated in CFA francs, unless it is contracted with another member state.

(e) "External debt" is defined as debt denominated in any currency other than the CFA franc and debt in CFA francs contracted with another member state;

QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definitions

5. Net domestic financing (NDF) of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.

[2]The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Spring 2018 World Economic Outlook (WEO).

6. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and local commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of government-owned entities, except for industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and local commercial banks, including Treasury bills and other securitized debt.

7. The data deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market, calculated by the BCEAO, and the figures for nonbank financing calculated by the Treasury of Benin.

8. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives. Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all external debt (defined as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external arrears.

Performance Criteria and Indicative Targets

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 74.7 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103.0 billion at end-September 2018; and CFAF 118.8 billion at end-December 2018. The ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF 45.9 billion at end-June 2019; CFAF 68.8 billion at end-September 2019; and CFAF 36 billion at end-December 2019. The ceiling is a performance criterion for end-June 2019, and an indicative target for end-September and end-December 2019.

Adjustments

11. Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that excess, minus CFAF 5 billion.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 15 billion at end-June 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

12. For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program:

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 0 billion at end-June 2019; CFAF 22.8 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

B. Floor of the Basic Primary Fiscal Balance

Definition

13. The basic primary fiscal balance is defined as the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a payment order basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments on domestic and external debt; and (b) capital expenditure financed by external grants and loans. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

Performance Criteria and Indicative Targets

14. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than minus CFAF -69.7 billion at end-March 2018; minus CFAF -47.5 billion at end-June 2018; minus CFAF -20.3 billion at end-September 2018; and CFAF +3.9 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

15. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.5 billion at end-September 2019; and CFAF 120.7 billion at end-December 2019. The floor for end-June 2019 is a performance criterion and the floors for end-September and end-December 2019 are indicative targets.

C. Floor of Total Government Revenue

Definition

16. Total government revenue includes tax and nontax revenue, as shown in the TOFE, but excludes external grants, revenue of autonomous agencies, and privatization receipts.

Performance Criteria and Indicative Targets

17. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 707.1 billion at end-September 2018; and CFAF 1,021.6 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

18. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2017; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-December 2019. The floor for end-June 2019 is a performance criterion and the floors for end-September and end-December 2019 are indicative targets.

D. Non-Accumulation of New Domestic Payments Arrears by the Government

Definition

19. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer repayment period. The Autonomous Amortization Fund (CAA) and the Treasury record and update the data on the accumulation and reduction of domestic payments arrears. The definitions of debt given in paragraph 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

20. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.

E. Non-Accumulation of External Payments Arrears by the Government

Definition

21. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, on the external debt of the government or external debt guaranteed by the government. The definitions of debt given in paragraph 4a, of external debt in paragraph 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

22. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears related to debt that is the subject of renegotiation or rescheduling. The performance criterion on the non-accumulation of external public payments arrears will be continuously monitored throughout the program.

F. Ceiling on the Amount of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More

Definition

23. This performance criterion applies not only to debt as defined in paragraph 4a, but also to commitments contracted or guaranteed by the government (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

24. The term "government" used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new short-term external debt, includes the government, as defined in paragraph 3, local governments, and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Continuous Performance Criterion

25. The present value of new external borrowing contracted or guaranteed by the government in 2018 will not exceed a cumulative amount of CFAF 468.9 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

G. Ceiling on Pre-Financing Contracts for Public Investments

Definition

26. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury's account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

27. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS

H. Floor for Priority Social Expenditures

28. Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, *inter alia*: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education; and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFIP).

Definition

29. The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1 below.

Table 1. Priority Social Expenditure Categories

Budget code	Description
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
46	Ministry of SMEs and the promotion of employment
39	Ministry of Agriculture Livestock, and Fisheries
26	Ministry of Justice
52	Ministry of labor and public affairs
51	Ministry of infrastructure and transport
40	Ministry of tourism, culture and sport
41	Ministry of social affairs and microfinance
27	Ministry of Plan and Development
60	Ministry of domestic and public security
44	Ministry of Higher Education and Scientific Research
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
34	Ministry of Living Standards and Sustainable Development

Indicative Target

30. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

31. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

INFORMATION FOR PROGRAM MONITORING

I. Data on Performance Criteria and Indicative Targets

32. To facilitate effective program monitoring, the authorities will provide IMF staff with the following data:

Every month:

- Data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;
- Monthly consumer price index, within two weeks of the end of the month;
- The TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by SIGFIP, within six weeks of the end of the month;
- Data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

Data pertaining to the amount of exceptional payment orders or other exceptional measures, within six weeks of the end of the quarter; and

Data pertaining to priority social expenditures, within six weeks of the end of the quarter.

J. Other Information

33. The authorities will provide IMF staff with the following data:

Every month:

- Bank supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.

Every quarter:

- Data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and
- Data on the stock of external debt, external debt service, the signing of external loan agreements and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

In the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget review law; as well as any decree or law pertaining to the budget or the implementation.