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IDA/R2017-0328/2

November 13, 2017

Closing Date: Tuesday, November 28, 2017 at 6 p.m.

FROM: Acting Vice President and Corporate Secretary

Benin - First Fiscal Reform and Growth Development Policy Financing

Program Document

Corrigendum

1. The Program Document for the "Benin – First Fiscal Reform and Growth Development Policy Financing" (IDA/R2017-0328/1), which is being processed on an absence-of-objection basis, has been revised and the fully revised document has been posted in BOS.

2. A change in the document is as follows:

- On paragraph 1.3, page 1, the sentence has been corrected to read:

  "Poverty remains widespread, with a poverty rate of about 50 percent (US$1.90 a day poverty line – 2011 purchasing power parity) in 2015."

3. Questions on these documents should be referred to Mr. Andrea Coppola (ext. 37681).

Distribution:
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The World Bank

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Report No. 119983-BJ

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY OPERATION

IN THE AMOUNT OF EURO 33.9 MILLION
(US$40 MILLION EQUIVALENT)

TO

THE REPUBLIC OF BENIN

FOR THE

FIRST FISCAL REFORM AND GROWTH DEVELOPMENT POLICY FINANCING

October 30, 2017

Macroeconomics & Fiscal Management Global Practice
Africa Region

REPUBLIC OF BENIN - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
Exchange Rate Effective as of September 30, 2017

Currency Unit = CFA Franc
US$1.00 = CFAF 555.1552
US$1.00 = EUR 0.8465

ABBREVIATION AND ACRONYMS

ABE	Environmental Protection Agency (*Agence Béninoise de l'Environnement*)
ABSSA	Benin Agency for Food Safety (*Agence Béninoise de Sécurité Sanitaire des Aliments*)
AfDB	African Development Bank
AIC	Inter-Professional Cotton Association *(Association Interprofessionnelle de Coton)*
ANDF	National Land Agency *(Agence nationale du domaine et du foncier)*
ANLC	National Anti-Corruption Authority *(Autorité Nationale de Lutte contre la Corruption)*
ASA	Analytic and Advisory Activities
BAI	Office of Analysis and Investigations (*Bureau d'Analyse et d'Investigation*)
BCEAO	Central Bank of West African States *(Banque Centrale des Etats de l'Afrique de l'Ouest)*
CAA	Debt Management Agency *(Caisse Autonome d'Amortissements)*
CEB	Benin Electric Community *(Communauté Electrique du Bénin)*
CFAF	West African CFA Franc
CIE	Ivorian Electricity Company *(Compagnie Ivoirienne d'Electricité)*
CIGOP	Competitiveness and Integrated Growth Opportunity Project
CNSS	Private Pension Fund *(La Caisse Nationale de Sécurité Sociale du Bénin)*
CPS	Country Partnership Strategy
CSPEF	Monitoring Unit for Economic and Financial Programs *(Cellule de Suivi des Programmes Economiques et Financiers)*
DB	Doing Business
DeMPA	Debt Management Performance Assessment
DGDDI	Directory General of Customs and Indirect Taxes *(Direction Générale des Douanes et Droits Indirects)*
DGI	Tax Direction *(Direction Générale des Impôts)*
DPF	Development Policy Financing
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DTIS	Diagnostic Trade Integration Study
ECF	Extended Credit Facility
EIA	Environmental Impact Assessment
FDI	Foreign Direct Investment
FNDA	National Fund for Agriculture Development (*Fonds National de Développement Agricole*)
FNR	Government Pension Fund (*Fonds national des retraites)*

FRG	Fiscal Reform and Growth Development Policy Operation
FY	Fiscal Year
GAP	Government Action Plan *(Programme d'Actions du Gouvernement)*
GDP	Gross Domestic Product
GoB	Government of Benin
ICT	Information and Communications Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Financial Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INSAE	National Statistics and Economic Analysis Institute *(Institut National de la Statistique et de l'Analyse Economique)*
IPP	Independent Power Producer
ISA	International Standards on Auditing
Km	Kilometer
kVa	Kilo Volt Ampere
kWh	Kilo Watt hour
LCSSA	Central Laboratory for Food Safety *(Laboratoire Central de Contrôle de la Sécurité Sanitaire des Aliments)*
LOLF	Organic Law on Financial Legislation *(Loi Organique relative aux Lois de Finances)*
MCC	Millennium Challenge Corporation
MEF	Ministry of Economy and Finance
NPAR	National Program for Agricultural Research
NPL	Non-Performing Loan
OECD	Organization for Economic Cooperation and Development
PADA	Agricultural Productivity and Diversification Project *(Projet d'Appui à la Diversification Agricole)*
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PER	Public Expenditure Review
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PLR	Performance and Learning Review
POSAF	Tax Administration Strategic Orientation Plan *(Plan d'orientation stratégique de l 'administration fiscale)*
PPP	Public-Private Partnership
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Assessment
SBEE	Benin Electric Energy Company *(Société Béninoise d'Energie Electrique)*
SCRP	Growth for Poverty Reduction Strategy *(Stratégie de Croissance pour la Réduction de la Pauvreté)*
SEZ	Special Economic Zone
SIGRH	Integrated Human Resource Management System *(Système Integré de Gestion des Ressources Humaines)*

SOE	State-Owned Enterprise
TA	Technical Assistance
TCN	Transmission Company of Nigeria
VAT	Value added tax
VRA	Volta River Authority
WAAPP	The West Africa Agricultural Productivity Program
WAEMU	West African Economic and Monetary Union
WAPP	West Africa Power Pool
WARCIP	West Africa Communications Infrastructure Program
WB	The World Bank
WEF	World Economic Forum

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REPUBLIC OF BENIN
FIRST FISCAL REFORM AND GROWTH DEVELOPMENT POLICY FINANCING (FRG 1)
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Acknowledgements

The First Fiscal Reform and Growth Development Policy Financing was prepared by an IDA team consisting of Andrea Coppola and Boulel Touré (GMFDR) as task team leaders, as well as: David Cal MacWilliam (GMFDR); Erick Herman Abiassi (GFA01); Christian Berger (GFA01); Holger Kray (GFA13); Irina Schuman (GFA07); Charles Cormier (GEE07); Franklin Gbedeye (GEE07); Alain Ouedraogo (GEE07); Félicien Accrombessy (GPVDR); Mathias Gogohounga (GGO07); Nicoletta Feruglio (GGO19); Angelo Donou (GGO26); Robert Yungu (GGO17); Faly Diallo (WFAFO); Africa Eshogba Olojoba (GEN07); Saba Gheshan (LEGAM); Issa Thiam (WFALA); and Pepita H. Olympio (AFMBJ). Pierre Laporte (Country Director, AFCF2), Lars Moller (Practice Manager, GMFDR), Jacques Morisset (Program Leader, AFCF2), Sunil Mathrani (Program Leader, AFCF2), Katrina Sharkey (Country Manager, AFMBJ); and Christine Richaud (Lead Economist, GMFDR) provided guidance. The team would also to thank Nalini Kumar (AFRDE) for the review support. Maude Jean-Baptiste Valembrun and Theresa Bampoe (GMFDR) helped prepare the document. The team also worked closely with the IMF team headed by Norbert Toé, and donor representatives in Benin. Jorge Araujo (Economic Adviser, LCRVP) and Emilia Skrok (Senior Economist, GMFDR) served as peer reviewers of the ROC stage program document. Mamadou Ndione (GMFDR), Helene Grandvoinnet (GGO13) and Yutaka Yoshino (AFCE1) served as peer reviewers of the CN stage program document.

SUMMARY OF PROPOSED CREDIT AND PROGRAM
REPUBLIC OF BENIN
FIRST FISCAL REFORM AND GROWTH DEVELOPMENT POLICY FINANCING

Borrower	Republic of Benin.
Implementing Agency:	The Ministry of Economy and Finance (MEF).
Financing Data:	IDA Credit Amount: EUR 33.9 million (equivalent to US$40 million). Standard IDA Credit terms: 38-year maturity including a 6-year grace period.
Operation Type:	Programmatic, single tranche.
Pillars of the Operation and Program Development Objectives:	The program development objectives of this FRG series are to: a) support macroeconomic stability by strengthening fiscal management; and b) promote economic growth by increasing agricultural productivity and competitiveness and strengthening the power sector's financial viability and production capacity.
Results Indicators:	**PILLAR 1: STRENGTHENING FISCAL MANAGEMENT** **Result Indicator 1:** Tax revenue as a percentage of GDP. Baseline (average 2014-16): 13.9 percent, Target (2019): 14.5 percent. **Result Indicator 2:** Share of non-custom taxes paid through the banking system and the e-payment system. Baseline (2016): 0 percent, Target (2019): 70 percent. **Result Indicator 3:** Share of identified ghost workers removed from the civil service payroll. Baseline (2016): 0 percent, Target (2019): 70 percent. **Result Indicator 4:** Share of payments of pensions (above CFAF 50,000), scholarships, and civil servants' benefits processed through the banking system. Baseline (2016): 0 percent, Target (2019): 80 percent. **PILLAR 2: INCREASING AGRICULTURAL PRODUCTIVITY AND COMPETITIVENESS AND STRENGTHENING POWER SECTOR'S FINANCIAL VIABILITY AND PRODUCTION CAPACITY** **Result Indicator 5:** Average quantity (kg) of processed cashew (C), pineapple juice (P), and milled rice (R) for each ton produced: C - Baseline (2016): 55, C - Target (2019): 58; P - Baseline (2016): 270, P - Target (2019): 285; R - Baseline (2016): 220, R - Target (2019): 230. **Result Indicator 6:** Irrigated land. Baseline (2017): 20,000 ha, Target: 20,600 ha. **Result Indicator 7:** Share of cashew (C) and pineapple (P) samples tested by LCSSA which meet international standards: C - Baseline (2017): 90 percent, Target (2019): 96 percent; P - Baseline (2017): 85 percent, Target (2019): 93 percent. **Result Indicator 8:** SBEE's arrears with CEB. Baseline 2017: CFAF 39.2 billion**,** Target 2019: CFAF 10 billion. **Result Indicator 9:** SBEE's revenue collection rate from all public sector institutions. Baseline (2016): 5 percent, Target (2019): 70 percent. **Result Indicator 10:** Legal framework supports private sector participation in the power sector. Baseline (2016): No, Target (2019): Yes
Overall Risk Rating:	Substantial
Climate and disaster risks:	There are no short or long term climate or disaster risks relevant to this operation as identified as part of the SORT environmental and social risk rating.
Operation ID:	P160700

IDA PROGRAM DOCUMENT FOR A
FIRST FISCAL REFORM AND GROWTH DEVELOPMENT POLICY OPERATION
TO THE REPUBLIC OF BENIN

1. INTRODUCTION AND COUNTRY CONTEXT

1.1 **The proposed Development Policy Operation (DPO) is the first in a series of two DPOs that support Benin's efforts to maintain fiscal sustainability while promoting economic growth.** The Government has an ambitious investment and reform program aimed at accelerating economic growth (*Programme d'Actions du Gouvernement 2016-2021*, GAP). The proposed series will support the Government's reform efforts in the two following areas: a) creating fiscal space to allow for the Government's investment program while remaining within sustainable budget and debt parameters; and b) strengthening the foundations for inclusive economic growth through competitiveness-enhancing reforms in agriculture and energy. The proposed amount for this first operation is EUR 33.9 million (equivalent to US$40 million) on standard International Development Association (IDA) Credit terms; 38-year maturity including a 6-year grace period.

1.2 **Benin's macroeconomic policy framework provides an adequate basis for the proposed operation.** This assessment is affirmed by: favorable medium-term growth prospects underpinned by continued strength in agricultural production and sustained public and private investments; the strong Government commitment to meet the 2019 West African Economic and Monetary Union (WAEMU) fiscal target and restore fiscal and debt sustainability; the participation in the WAEMU and the commitment to the WAEMU Stability, Convergence, Growth and Solidarity Pact objectives; the participation in an International Monetary Fund (IMF)-supported Program which aims to address Benin's balance of payments needs, and alleviate the impediments to inclusive growth and poverty reduction by creating fiscal space for infrastructure investment and priority social spending; and the moderate risk of external debt distress.

1.3 **Poverty remains widespread, with a poverty rate of about 50 percent (US$1.90 a day poverty line – 2011 purchasing power parity) in 2015**. With an average per capita gross domestic product (GDP) growth rate of 1.3 percent (2005-2015) driven primarily by the services sector, poverty reduction has been limited, highlighting the need to ensure a broad-based and stronger growth. There are significant regional disparities in poverty rates and rural poverty rates are higher than those in urban areas. Fewer female-headed households fall below the national poverty line than male-headed households. However, women continue to suffer from a lack of economic opportunity and are under-represented in politics and in other high-level decision making positions. Support provided under the second pillar of this series will seek not only to increase economic growth, but to promote a pattern and nature of growth that is increasingly pro-poor.

1.4 **The first focus of the DPO series on fiscal consolidation (Pillar 1) is justified given the Government's effort to create fiscal space and improve the efficiency of public spending**. In the run-up to the 2016 Presidential elections, uncontrolled increases in the wage bill and out-of-budget expenses led to significant increases in public debt (up by almost 20 percent of GDP) and in the fiscal deficit (up from 1.9 percent of GDP in 2014 to 8 percent in 2015, including grants). The new Government contained expenditures in 2016 since tax revenues dropped and managed to reduce the fiscal deficit from 8 percent of GDP in 2015 to 6 percent of GDP in 2016. The DPO series will help the authorities create fiscal space by improving revenue collection and managing public expenditure more efficiently, particularly wages and transfers. In addition to the DPOs, the Government program is supported by an Extended Credit Facility (ECF) three-year program with the IMF approved by the IMF Board on April 7, 2017, providing macroeconomic and fiscal anchors that should help the implementation of the reforms. The first review of the Program, carried out in September 2017, confirmed that the Program is on track and authorities are committed to responsible fiscal management.

1.5 Increasing agricultural productivity and competitiveness and strengthening the power sector's financial viability and production capacity (Pillar 2) is a Government's priority to create jobs and support inclusive growth. Agriculture employs about 50 percent of the population and is the economy's leading formal sector foreign exchange earner. The country has a large endowment of arable and fertile land and adequate water resources. However, Benin's comparative advantage in agriculture remains largely unexploited. The sector's productivity and competitiveness can be unleashed, once deficiencies in the agriculture policy framework and governance structure are addressed and constraints to farming, such as limited access to input and output markets, water and credit, and food safety and quality are tackled. Moreover, the inconsistent supply of electricity is frequently noted as a leading constraint to private sector growth, particularly in the light manufacturing and agricultural processing sectors. Strengthening the financial viability of the power sector and promoting private sector participation is essential to increase electricity production capacity in a sustainable way. Focusing on these important real sectors will help improve productivity, create higher paying jobs and livelihoods, and enhance the country's effort to reach the World Bank's twin goals of poverty reduction and shared prosperity.

1.6 The operation is well-aligned with the objectives of the World Bank Group's Benin Country Partnership Strategy (CPS). The recently completed Benin Performance and Learning Review (PLR) extended the CPS until the end of FY18. The Benin's CPS explicitly includes DPFs as a key IDA instrument for supporting Benin's Poverty Reduction Strategy (SCRP III) and in addressing the Government's request for greater donor harmonization on priority reforms. By promoting agriculture productivity and improving the power sector's financial viability and production capacity, this operation supports Pillar 1 of the CPS which focus on increasing sustainable growth, competitiveness, and employment. Moreover, the PLR noted the need for: (a) budget support operations to magnify the focus on macroeconomic and fiscal sustainability, which are supported under the first pillar of this series (strengthening fiscal management); and (b) strengthening the link between growth and poverty outcomes, which is supported under the second pillar of this series (promoting inclusive growth by increasing agricultural sector productivity and strengthening the power sector).

2. MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

2.1 Benin's growth performance has been satisfactory, averaging around four percent over the past decade. Benin is a small West African country, with a population of 11.2 million in 2016, a GDP per capita of just US$771, and an economy dominated by services and agriculture which, in 2016, accounted for 50 and 25 percent of total value added respectively. Over the 2000-2015 period, the services sector was the primary driver of GDP growth with an average annual growth in services of 5.6 percent, higher than the 3.4 percent and 2.8 percent in agriculture and the industry sectors. Following the temporary 2015 slowdown (2.1 percent)[1], economic growth rebounded to 4 percent in 2016, driven by the recovery of

[1] The 2015 slowdown in economic activity has been the result of Nigeria' economic crisis, the decline in cotton prices, and the political uncertainty associated with the Presidential elections that were held at the end of the year.

private consumption. Economic performance was supported by increased cotton production, strong activity at the Port of Cotonou, and rising telecommunications and transport sector activity. Following the 2016 elections, public investments temporarily slowed down due to the change in the Administration and the effort to rein in public spending.

2.2 However, Benin's economic performance is hampered by low productivity and low competitiveness, that are linked mainly to high informality. Benin's economy is highly informal, particularly in the agriculture sector. Approximately 90 percent of the labor force is engaged in the informal sector – agriculture, informal commerce and other services activities. Approximately 20 percent of GDP and 25 percent of government revenue are related to informal re-export trade with Nigeria. This trade is essentially arbitrage trade whereby commodities that are subject to high tariffs, other taxes, or outright bans on imports in Nigeria are imported into Benin for domestic consumption and then promptly re-exported unofficially to Nigeria across the porous border. Commodities involved include: used cars; rice; used clothing; poultry products; tires; batteries; and vegetable oils. Value-added in this activity can be substantial, as volumes fluctuate widely depending on trade policies in Nigeria. As it will take some time for the formal sector to become a major source of job creation, focusing on increasing the productivity of informal activities, specially agriculture, appears to be a more practical approach to improving the welfare of the poor in the short to medium term.

2.3 Coordination failures and under-provision of public goods prevent private investment and productivity increase in the agriculture sector. Agriculture employs approximately half of Benin's active labor force. Agricultural crops include cereals, starchy roots and cotton – Benin's main export commodity. Agriculture suffers from supply chain deficiencies, including in the provision and distribution of inputs as well as on the marketing side. There has been an under-provision of public goods such as rural infrastructure, storage depots, the development of input chains, research and extension services, marketing channels, cold chains, to name but a few, also including food safety issues. In addition, the weak business enabling environment has also contributed to the lack of private sector interest in the sector. While Benin has improved its ranking in the Doing Business indicators over the past two years, it nonetheless remains near the bottom of the global rankings at 155th out of 190 countries. World Economic Forum's (WEF) Global Competitiveness report 2016-2017 ranked Benin 124th out of 138 countries.

2.4 The high cost and unpredictable supply of electricity is another key constraint for private sector development, economic formalization and productivity increase. Firms consistently consider the provision of electricity to be a major constraint and many have installed their own-generation capacity. Unlike most WAEMU countries, Benin is a net importer of electricity, and the main problem is reliability of supply rather than cost of electricity, though costs are considered high, which is exacerbated when firms have to install their own-generation capacity. Several types of infrastructure services in Benin are considered low quality, with electricity supply topping the list. In the Africa Competitiveness Report 2015 Benin ranks 128th of 138 countries on the infrastructure pillar with the transport infrastructure ranking being 120 of 138 and the electricity and telephony ranking being 131 of 138. This places Benin well below its GDP ranking on these measures and identifies infrastructure as a potential important constraint.

Table 2.1: Key macroeconomic indicators (2013-2020)

	2013	2014	2015	2016	2017	2018	2019	2020
				Est.		Projections		
Real economy		(Annual percentage change)						
Real GDP	7.2	6.4	2.1	4.0	5.4	6.0	6.3	6.7
GDP per capita (U.S. dollars)	888	918	764	771	826	910	969	1032
Contributions:								
Consumption	2.3	7.6	2.8	2.9	2.6	5.0	5.9	6.3
Investment	8.3	4.9	-2.2	0.9	7.8	1.1	2.1	2.2
Net exports	-3.4	-6.1	1.5	0.2	-4.9	-0.2	-1.8	-1.9
Imports	7.7	8.3	0.0	1.0	7.8	3.6	4.8	5.1
Exports	4.4	2.2	1.5	1.2	2.8	3.4	3.1	3.3
Unemployment rate (ILO definition)	1.0	1.0	1.0	1.0	…	…	…	…
GDP deflator	1.4	-0.2	0.1	-0.3	2.1	2.0	2.0	2.0
CPI (eop)	-1.8	-0.8	2.3	-2.7	2.2	2.0	2.0	2.0
Fiscal Accounts		Percent of GDP, unless otherwise indicated						
Expenditures	21.0	19.1	25.3	21.4	24.2	21.9	20.4	19.7
Revenues	17.6	16.3	16.7	14.7	16.5	16.1	16.8	17.4
General Government Balance	-3.5	-2.8	-8.6	-6.7	-7.7	-5.8	-3.6	-2.3
External PPG debt (eop)	16.7	19.8	21.3	23	23.8	25.4	26.9	27.4
Total public sector debt	25.3	30.5	42.4	50.0	53.6	53.7	51.7	47.8
Selected Monetary Accounts		Annual percentage change, unless otherwise indicated						
Base Money	17.3	16.7	7.9	-2.6	7.6	NA	NA	NA
Credit to non-government	15.6	-1.2	-2.9	2.2	5.4	NA	NA	NA
Interest (key policy interest rate, average)	3.9	3.5	3.5	3.5				
Balance of Payments		Percent of GDP, unless otherwise indicated						
Current Account Balance	-7.7	-8.8	-8.4	-7.2	-9.2	-8.1	-7.8	-7.3
Imports	-28.3	-31.0	-28.8	-28.2	-31.4	-30.9	-31.6	-30.8
Exports	15.5	15.8	15.9	16.4	17.9	18.9	19.8	19.3
Foreign Direct Investment	3.3	4.0	1.4	1.3	1.7	1.7	1.8	1.8
Gross Reserves (in US$bn, eop)[1]	13.9	14.2	12.4	10.8				
In months of next year's imports	4.5	4.7	4.6	3.7				
As % of short-term external debt[2]	84.0	77.0	71.1	74.0				
External Debt	16.7	19.8	21.3	23.0	23.8	25.4	27.0	27.4
Terms of Trade	1.6	1.0	2.4	2.4	1.1	-0.9	0.3	2.1
Exchange Rate (average)	493.9	493.6	591.2	592.7				
Other memo items								
e.g., GDP nominal in US$	9,160	9,723	8,295	8,577	9,410	10,616	11,558	12,569

[1] Regional data (WAEMU)

[2] Gross official reserves divided by short-term domestic liabilities (IMF definition).

Source: Government data, IMF calculations, and WB calculations (September 2017).

2.5 Over the past decade, Benin has consistently reported high current account deficits that have been financed by Foreign Direct Investment (FDI) and concessional capital inflows. The current account deficit averaged 8 percent of GDP over the last decade, partly because of significant investments in capital intensive industries (oil exploration, cement) that required considerable imports of intermediate and capital goods. The deficit grew from 7.7 percent of GDP in 2013 to about 8.4 percent of GDP in 2015. In 2015, both imports and exports went down due to the fall of oil prices, the recession in Nigeria, and lower cotton production. In 2016, the current account deficit improved to 7.2 percent of GDP as investments slowed down and exports rebounded by 7 percent thanks to the strong export performance of cotton (driven by a 65 percent volume increase). While assessing the country's external imbalances, it is important to consider the high degree of informal cross-border trade between Benin and Nigeria.

2.6 Benin is a member of the WAEMU. Monetary and exchange rate policies are managed at the regional level by the Central Bank of West African States (BCEAO) which maintains a peg between the CFA Franc and the Euro supported by the French Treasury. In December 2016, BCEAO increased the marginal lending facility rate from 3.5 to 4.5 percent thereby increasing the cost of funds for sovereigns at the regional market. However, the impact of this measure was mitigated in March 2017, when BCEAO reduced the reserve requirement ratio from 5 percent to 3 percent. Given BCEAO's prudent monetary policy, inflation is determined by supply side factors like domestic food production or changes in gas price in Nigeria. Inflation turned negative in 2016 as the devaluation of the Nigerian naira resulted in lower domestic fuel prices.

2.7 While monetary policy remains prudent, non-performing loans (NPLs) increased in 2016. As of June 2016, the NPL ratio was 15.2 percent (up from 14.4 percent in 2014 and 2015) and the capital adequacy ratio (Tier 1 capital) was approximately 10.3 percent (down from 11.2 percent in 2014 and 10.5 percent in 2015). Thus, banks have less margin for covering their risks and boosting credit. Consequently, credit to the private sector grew only by 2.2 percent in 2016. To address this situation, the Banking Commission intensified on-site supervision and commercial banks have taken steps to improve loan quality by launching a project to centralize and share loan information given that BCEAO efforts to establish a regional credit information office have not been completed. Credit bureau legislation has been adopted and will be implemented over the coming months. The microfinance sector showed growth in loans and deposits, but progress in the closure of non-approved microfinance institutions remained limited.

2.8 Tax revenue, which are historically lower than the regional average, dropped in 2016, mainly because of negative spillovers from Nigeria. Relative to comparators, including WAEMU countries, the Government revenue in Benin has been historically low. During the last five years, tax revenue averaged 16.2 percent of GDP in WAEMU, which was about two percentage points above Benin's performance. In this context, the recession in Nigeria had negative spillovers on Benin's economic activity and revenue collection. Benin's informal trade with Nigeria is a key source of revenues. On average, revenue collection from re-exports to Nigeria is estimated at about 2 percent of GDP. Besides customs duties and processing fees, Value Added Tax (VAT) is levied on informal trade-related imports, which must be declared for domestic consumption as authorities do not process imports prohibited by Nigeria as transit goods. Following the recession in Nigeria, tax revenue from international trade went from 7 percent of GDP in 2015 to 5.7 percent of GDP in 2016 and revenue from direct and indirect taxes went down to 6.9 percent of GDP in 2016 (from 7.5 percent in 2015).

2.9 Despite the drop-in tax revenue, the new Administration managed to reduce the fiscal deficit in 2016. In 2015, in the run-up to the legislative and presidential elections, the outgoing administration adopted an expansionary fiscal stance. Profligate spending, including on road infrastructure through pre-financed arrangements, led to the fiscal deficit jumping to 8 percent in 2015 (from 1.9 percent in 2014) and continued through to March 2016. However, many of the spending measures approved before elections were reverted in 2016 by: cancelling some wage increases and bonuses; eliminating some positions created at the end of the previous administration; reducing the number of ministries and eliminating some central institutions (particularly those attached to the Presidency); and significantly reducing discretionary expenditures within ministries. As a result, the current primary expenditures went down to 14.2 percent of GDP (from 16.5 percent of GDP in 2015), almost in line with the levels observed in 2014 (13.8 percent of GDP). Also, capital expenditures were reduced significantly (from 7.7 percent of GDP in 2015 to 5.9 percent of GDP in 2016) and the new Administration suspended/canceled 18 of 22 pre-financed investment contracts. The fiscal deficit decreased to 6.0 percent of GDP in 2016. The Administration also agreed to refrain from entering into new pre-financing contracts and this commitment became one of the performance criteria continuously monitored under the IMF-supported program.

2.10 On the debt front, substantial amounts of treasury bills and bonds in the WAEMU monetary market were issued to finance the fiscal deficit in 2015 and 2016. As a result, the total government debt rose to 42.4 percent of GDP at end-2015 and to 50 percent of GDP at end-2016 compared to only 30.5 percent at end-2014.[2] The Government, aware that such rate of debt accumulation is unsustainable, has committed to fiscal consolidation and improved debt management.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.11 Real GDP growth is projected to accelerate from 4 percent in 2016 to 5.4 percent in 2017 and then reach about 6 percent in 2018 and 2019. Public investment and private investment, underpinned by improvements in the business environment, are expected to drive growth in the short and medium term respectively. Political stability and reforms to the business climate will lead to increase in private investment. Continued manufacturing investment is expected to provide some impetus to manufacturing GDP, while agricultural output is expected to remain strong over the next years with greater productivity. Those projections assume a recovery in neighboring Nigeria that will support a rebound of the re-export trade which is one of the pillars of the Beninese economy. The successful implementation of the GAP (see Box 1) will further strengthen the medium-term strong economic growth. Priority investments and substantive reforms under the GAP will be focused in the areas of energy, road infrastructure, tourism, agriculture and the Information and Communications Technology (ICT) sector. Government investment plans are also intended to accelerate, facilitate and leverage related private sector investment, with many investments to be pursued on a PPP basis.

2.12 The current account is expected to deteriorate in 2017 before converging back to Benin's historical average. In 2017, the current account deficit is expected to reach 9.2 percent of GDP, mainly as a result of the increase in investments and the related increase of capital goods imports. The gradual strengthening of exports of agricultural goods and tourism services is expected to reduce external imbalances and bring the current account deficit to 8.1 percent of GDP in 2018, and below 8 percent of GDP from 2019 onwards. The 2017 current account deficit is expected to be financed by FDI in the construction, manufacturing, and services sectors and external debt, with the remaining financing gap being financed by budget support from multilateral institutions and disbursements from the IMF under the ECF arrangement.

[2] Total 2016 public debt of 50.0 percent is accounted for by 23.0 percent of GDP in external debt and 27.0 percent of GDP in domestic debt. This is inclusive of SOE related debt.

2.13 Inflation is expected to remain subdued as BCEAO is expected to maintain a prudent policy stance. The monetary stance adopted by the BCEAO should help keep the inflation rate to a low level but may reduce incentives for commercial banks to expand credit to the economy. As a result, the projected acceleration of economic growth is expected to bring inflation at about 2 percent, well below the 3 percent WAEMU target, as BCEAO continues focusing on achieving the WAEMU Stability, Convergence, Growth and Solidarity Pact objectives.

Table 2.2: Balance of Payments (2013-2020) (US Dollars)

	2014	2015	2016	2017	2018	2019	2020
			Est.		Proj.		
BOP financing requirements and Sources							
Financing requirements	-905.8	-745.9	-655.3	-909.1	-866.4	-910.4	-928.5
Current account deficit	-851.9	-697.1	-614.3	-855.9	-825.3	-868.7	-885.4
Short term debt amortizations	…	…	…	…	…	…	…
Long term debt amortization (excl. IMF)	-53.9	-48.9	-41.0	-53.3	-41.2	-41.7	-43.1
Other short term capital outflows	…	…	…	…	…	…	…
Financing Sources	905.8	745.9	655.3	909.1	866.4	858.7	835.9
FDI and portfolio investments (net)	614.9	503.1	-75.4	211.7	262.9	275.2	334.0
Capital grants	16.6	0.0	0.0	26.7	70.1	65.8	65.8
Short term debt disbursements	…	…	…	…	…	…	…
Long term debt disbursements (excl. IMF)	364.9	326.1	279.6	612.1	539.7	548.0	584.6
Change in reserves	-100.3	-74.9	459.8	3.0	-26.8	-52.6	-148.5
IMF credit (net)	9.7	-8.3	-8.6	55.5	20.5	22.3	0.0

Source: Government data, IMF calculations, and WB calculations (September 2017).

2.14 As authorities agreed to scale back their investment plan, the fiscal deficit will peak in 2017 before quickly converging to more sustainable levels and achieving the 2019 WAEMU fiscal target. Fiscal deficit (including grants) is expected to reach 6.3 percent of GDP in 2017 before dropping to 4.0 percent of GDP in 2018 and about 1.9 percent of GDP in 2019, below the 3 percent WAEMU target. Public expenditures will increase significantly in 2017 mainly because of higher capital expenditure necessary for the implementation of the GAP. In this context, the authorities agreed to reduce the 2017-2019 investment envelope under the IMF program from about US$4 billion to US$2.5 billion to preserve debt sustainability. The Government expects to finance part of the spending by increasing external loans and grants. Given the macro fiscal issues in 2015 and 2016, the Government did not manage to achieve its objective in terms of external resources mobilization. Greater macro stability, and the IMF-supported program in 2017 are expected to have a positive impact on FDI and donors funding. At end-June 2017, the fiscal outturn is in line with the projections. Total revenues amounted to CFAF 443.9 billion, slightly higher than expected. Non-tax revenue has been boosted in 2017 by the Government decision to move pensions' contributions by its contractual workers from the private pension fund (CNSS) to the Government pension fund (FNR). Expenditure commitments were significantly below targets, also because of delays in validating line ministries' work plans. As a result, the basic primary deficit was contained to an amount of CFAF 33.1 billion, well below the level targeted under the IMF program.

2.15 The significant fiscal adjustment envisaged will be achieved by lowering public investment, and the Government will rely on the private sector and positive spillovers from current public investment to sustain growth. High public investment carried out in 2017 are expected to have a positive lagged effect. In addition, private sector is expected to play an increasingly important role. The GAP envisages a range of structural reforms to improve the business environment, including measures to boost financial sector development and advance reforms in the judiciary. This will help to attract efficiency-enhancing FDI for more productive investment (foreign direct inflows are expected to increase from 1.3 percent of GDP in 2016 to 1.8 percent of GDP in 2019). Moreover, the funding of the GAP relies heavily on PPPs. The program includes 45 flagship projects that the Government considers as eligible for PPP financing. In October 2016, a PPP Law was adopted and its implementation decrees are under preparation. The Government has also created a Unit (*Cellule d'appui aux PPP*) in the Presidency in charge of the preparation and monitoring of PPP projects. In addition, a Strategic unit has been created inside the Ministry of Finance in charge, among other tasks, of assessing and managing the associated fiscal risks of PPPs. The World Bank is providing advisory services to strengthen the PPP legal framework. The World Bank is also helping Benin to manage more efficiently and effectively capital investments through the Public Investment and Governance Support project which follows an integrated approach for building capacity, ensuring accountability, and creating incentives for improved public investment performance.

2.16 In parallel, the Government will adopt reforms, including those supported under this DPO series, to increase the efficiency of public expenditure and strengthen domestic resource mobilization. On the expenditure side, the Government will eliminate ghost workers from the payroll and reduce the wage bill from 7 percent of GDP in 2016 to 6.3 percent of GDP in 2019. In addition, the Government plans to reduce transfers from 3.6 percent of GDP in 2016 to 2.7 percent of GDP in 2019 by increasing the efficiency of State-Owned Enterprises (SOE) through the introduction of performance based contracts and gradually reducing subsidies to the energy sector. At the same time, the Government will protect priority social spending. On the revenue side, efforts on tax policy and administration include simplifying tax payments, strengthening incentives to promote greater tax compliance and reducing fraud and corruption. A rationalization of exemptions and tax holidays is under consideration as the current system leads to a significant loss of tax revenue with minimal perceived benefits. Overall, tax revenue is projected to increase from 12.6 percent of GDP in 2016 to 14.5 percent of GDP in 2019, also because of expected greater demand from Nigeria and its consequent impact on the collection of tax on international trade.

2.17 The results of the external DSA carried out in March 2017[3] show that Benin's debt dynamics are sustainable under the baseline scenario, facing a moderate risk of debt distress. Because of the recent debt increase, risk of debt distress is higher than in the 2015 DSA. However, in the DSA baseline scenario, all debt indicators remain below their relevant policy-dependent thresholds. The ratio of the present value of external debt to exports exceeds its threshold in the case of an extreme shock to exports. Benin's WAEMU membership ensures its ability to pay in case of such a temporary shock. Total public (external and domestic) debt is projected to rise during the scaling up of public investment reaching about 53 percent of GDP in 2017 and 2018 and declining afterwards. The ratio remains consistently below the indicative benchmark of 56 percent, a level considered linked to increased probability of debt distress for countries with moderate capacity like Benin. The IMF-supported program is anchored to the net present value of total debt-to-GDP ratio.

2.18 Debt sustainability will require fiscal restraint coupled with a prudent borrowing policy (concessional borrowing) and improved management of fiscal risks. Improving debt management is also

[3] IMF/World Bank, Debt Sustainability Analysis (DSA), March 2017.

essential to reduce risk of debt distress. With the assistance of external partners, Benin has strengthened its capacities for debt management and reporting over recent years. In May 2017, the World Bank has carried out a second debt management performance assessment (DeMPA). The assessment found that, since 2010, debt management in Benin made significant progress. Major strengths and weaknesses have been identified. The Government is considering elaborating and implementing an action plan to improve identified weaknesses. The Debt Management Agency (*Caisse Autonome d'Amortissements* - CAA), which is the debt management agency, has benefited recently from significant technical assistance from the IMF and the World Bank. Recent reforms include streamlining of the fragmented public debt management between the treasury and the CAA; extending the coverage of debt monitoring to include key SOEs that undertake significant investment projects; strengthening and enhancing the development of a medium-term debt strategy; and the creation of front, middle and back office units.

Table 2.3: Key Fiscal Indicators, 2013-2020 (percent of GDP)

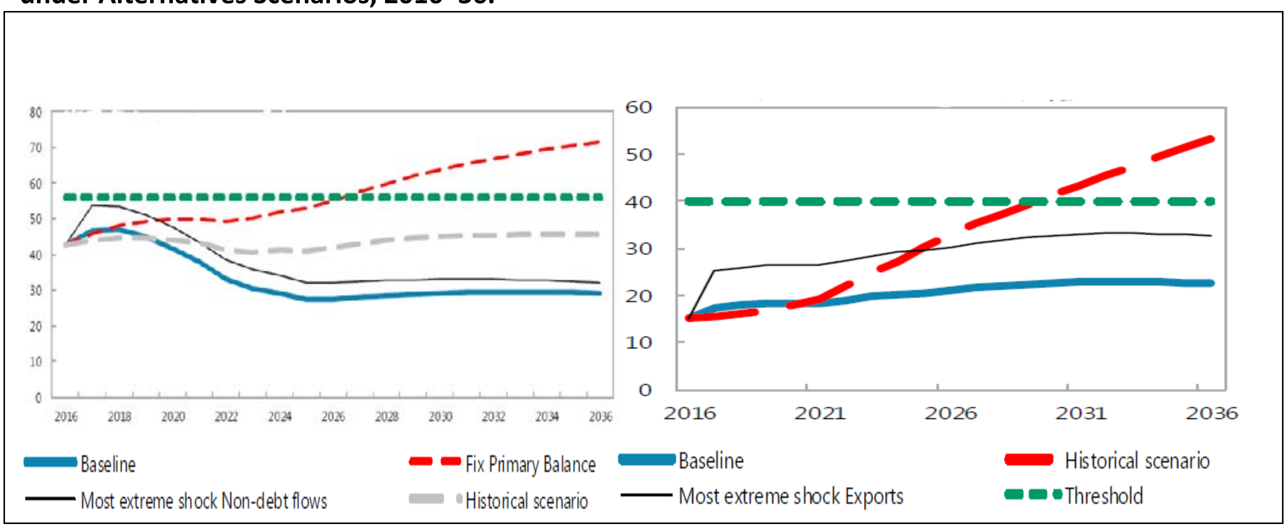
	2013	2014	2015	2016	2017	2018	2019	2020
		Act.		Est.		Projections		
Overall balance (commitment basis, incl. grants)	-2.6	-1.9	-8.0	-6.0	-6.3	-4.0	-1.9	-0.8
Primary balance	-3.0	-2.4	-7.9	-5.5	-5.8	-4.1	-1.7	-0.6
Total revenue and grants	18.5	17.2	17.3	15.4	17.9	17.9	18.5	18.9
Tax revenue	14.8	14.6	14.5	12.6	13.5	13.8	14.5	15.1
Direct and indirect taxes	6.6	7.1	7.5	6.9	7.3	7.5	7.9	8.3
Tax on international trade	8.2	7.5	7.0	5.7	6.1	6.3	6.6	6.8
Nontax revenue	2.8	1.7	2.2	2.1	3.0	2.3	2.3	2.3
Grants	0.9	0.9	0.6	0.7	1.4	1.8	1.7	1.5
Total expenditure and net lending	21.0	19.1	25.3	21.4	24.2	21.9	20.4	19.7
Current expenditures	14.0	14.2	17.2	15.4	14.7	14.3	14.2	13.8
Wage bill	6.6	6.6	7.0	7.0	6.1	6.4	6.3	6.3
Expenditure on goods and services	2.6	2.2	2.9	2.0	2.1	1.7	1.7	1.6
Interest	0.4	0.4	0.7	1.2	1.9	1.7	1.9	1.7
Current transfers	2.9	3.7	5.1	3.6	2.9	2.9	2.7	2.7
Pensions and scholarships	1.4	1.4	1.5	1.5	1.6	1.6	1.5	1.5
Other transfers	1.5	2.3	3.6	2.1	1.3	1.3	1.2	1.2
Capital expenditure and net lending	7.1	4.9	8.1	6.0	9.5	7.6	6.2	5.9
Capital expenditure	6.4	5.2	7.7	5.9	9.5	7.6	6.2	5.9
Capital transfers	0.3	0.2	0.0	0.0	0.3	0.7	0.6	0.5
Overall balance (cash basis, incl. grants)	-2.4	-2.6	-8.0	-6.0	-6.4	-4.2	-2.1	-1.0
Financing	2.4	2.6	8.0	6.0	6.4	4.1	1.6	0.2
External financing	3.0	1.7	2.1	1.6	2.1	3.0	2.9	2.6
Domestic financing	-0.6	0.8	5.9	4.4	4.3	1.0	-1.2	-2.4

Source: Government data, IMF calculations, and WB calculations (September 2017).

2.19 The macroeconomic outlook is subject to external and domestic risks. The deep interconnection with Nigeria constitutes the most important source of external risks as about 20 percent of Benin's GDP is related to informal trade with Nigeria and trade-related revenues normally represent about 20 percent of

Benin's total tax revenues. IMF estimates that a 1 percentage point reduction in Nigeria's GDP growth rate is associated with 0.3 percentage point reduction in Benin's growth rate. Similarly, fluctuations in the Naira over time will affect the magnitude of trade between the two countries. Other external risks include declining demand in Benin's other major trade partners such as China and India, which could affect the global price of cotton. On the domestic side, there is a substantial risk that authorities won't be able to adhere to the significant fiscal adjustment envisaged between 2017 and 2020. In addition, if the investment program does not result in significant economic growth and revenue generation, increasing debt levels might be difficult to sustain. Furthermore, the funding of the GAP relies heavily (about 60 percent) on PPPs which could create increasing contingent liabilities for the Government. The fragile financial situation in several SOEs, including in the energy sector, where the joint Benin/Togo-owned power generation and transmission utility (CEB) accumulated significant arrears with its suppliers abroad, also constitutes a fiscal risk. A SOE unit was recently created and data are being collected on SOEs (20) and autonomous agencies (140) debt and financial situations. Extending the coverage, under the medium-term debt strategy, to contingent liabilities and debt of state owned enterprises is a structural benchmark under the IMF-supported program which is expected to be met by December 2017. Another significant source of risk is created by weather conditions which affect agricultural output and exports and have an impact on the standards of living of the population, lower tax revenues, and increase the need to provide subsidies.

Figure 1: Indicators of Public Debt (left chart) and Publicly Guaranteed External Debt (right chart) under Alternatives Scenarios, 2016–36.



Source: Government data, IMF calculations, and WB calculations (March 2017).

2.20 World Bank staff consider Benin's macroeconomic policy framework as providing an adequate basis for the proposed operation. As described and highlighted in the preceding discussion, Benin currently benefits from a stable and sound macroeconomic outlook supported by a strong commitment to restore fiscal and debt sustainability in the medium-term. This assessment is affirmed by: short- and medium-term growth projections over 5 percent; a consistently low and stable rate of inflation of 2 percent or less; the adoption of credible measures, policies and commitments to quickly bring the budget deficit back to more sustainable levels and achieving the 2019 WAEMU fiscal target; and the current debt sustainability assessment of a moderate risk of debt distress.

C. IMF RELATIONS

2.21 Benin completed an ECF program with the IMF in 2014 and a new ECF program[4] was approved by the Board on April 7, 2017. This new program aims to address Benin's protracted balance of payments needs, and alleviate the impediments to inclusive growth and poverty reduction by creating fiscal space for infrastructure investment and priority social spending. It is also aimed at helping to catalyze official and private financing and build resilience against future economic shocks. The IMF mission for the First Program Review was completed in September 2017 and confirmed that the Program is on track. The World Bank and IMF Teams collaborate closely. IMF program-review missions are undertaken as joint IMF/World Bank missions, and World Bank participation is integral to the review process. Structural benchmarks and performance criteria that have been included in IMF programs are not only coordinated and consistent with prior actions supported through World Bank operations, but also with investment operations and Analytic and Advisory Activities (ASA). The IMF has been fully consulted in the preparation of this proposed series and has made substantive contributions to its design.

[4] The amount of the IMF-supported ECF program is US$151 million.

3. THE GOVERNMENT'S PROGRAM

3.1 The Government of Benin released its Action Program – the GAP – on October 26, 2016. The GAP is aimed at boosting investment (public and private) to encourage greater productivity and inclusive growth.

Box 1: The Government's Action Plan (GAP): Opportunities and Challenges

Benin's Government adopted its GAP on October 26, 2016; a five-year public investment program worth CFAF 9,039 billion (US$15.3 billion or 170 percent of 2016 GDP) that aims to structurally transform the economy. About 11 percent of the program is expected to focus on the energy sector and about 8 percent on the agriculture sector. Public Finance Management's reforms and Tax system's reforms envisaged within the Government program are expected to cost about US$43 million dollars US$39 million, respectively (reforms supported by this DPO series are expected to cost just a small fraction of this amount). The GAP is divided into Flagship projects (76.4 percent), directly prepared, monitored and implemented by the Presidency or agencies linked to the Presidency, and Priority projects (23.6 percent), prepared, implemented and monitored by line ministries under the leadership of the Minister of Plan and Development. PPPs are expected to account for 61 percent of the financing, with 39 percent coming from public resources. 26 percent of Flagship projects will be in infrastructure (road, port, airport), 25 percent will be spent on productive sectors, 18.2 percent on water and energy sectors, and 8.5 percent each on agriculture and tourism. The bulk of Priority projects will be devoted to infrastructures and urban development.

To implement the 299 projects and the 77 reforms included in the GAP, the Government has put in place the following committees: The Monitoring Committee for flagship projects led by the President; the Monitoring committee led by the State Minister in charge of Planning: and Sector Monitoring Committees at the ministerial level. In addition, autonomous implementation units are being created in various ministries, and the coordination/supervision of these units will be led by the Office of Analysis and Investigation (*Bureau d'Analyse et d'Investigation*) in the Presidency.

Clear risks to sustainability will be in implementation of the investment program and in liabilities associated with PPPs. New institutional structures, and past performance in execution and procurement practices, raise concerns around transparency, value for money and leakages. Large investments constitute also a potential source of environmental and social risk. The high level of PPPs envisaged under the program gives rise to concerns around contingent liabilities.

The WB is supporting Benin to tackle the risks associated with PPPs. Monitoring of fiscal risks associated with PPP projects could be facilitated by using the PPP Fiscal Assessment Model (PFRAM) developed by World Bank and IMF. The World Bank is collaborating with the authorities to strengthen the PPP legal and institutional framework (which should also encompass adequate environmental and social due diligence capacity) and it is promoting efficiency of public investment management through an ongoing Public Investment Management and Governance Support Project. The IMF and the World Bank jointly carried out a Public Investment Management Assessment in October 2017.

The GAP seeks to develop the potential for higher domestic value-added in the agriculture and tourism sectors, identified as major potential sources of growth. It recognizes the importance of improving the quality of education and strengthening basic social services and social protection. Funding of the GAP relies heavily on PPPs. About 60 percent of the funds are expected from the private sector in the form of PPPs and 40 percent from public resources, including grants and borrowing. As a result, monitoring of fiscal risks stemming from PPPs will be essential going forward. A discussion of the GAP, the relevance of PPPs, and the associated fiscal risks are provided in Box 1.

3.2 As input into the Government's broader strategy, as well as sectoral strategies, the World Bank provided a series of 16 policy notes across a range of sectors. These notes also serve as the basis for ongoing policy dialogue with the authorities across a range of important issues. As a result, some measures specifically included in the GAP are reflected directly in this proposed series. In the area of agricultural productivity, both cotton and non-cotton agriculture are covered as leading priorities and this series will support selected GAP actions. In this respect, the GAP notes a particular focus on the development of agricultural value chains for rice, maize, pineapples and cashews. Investment is an important and prominent activity in the GAP and this series supports energy/electricity reform aimed at strengthening the regulatory environment and the financial position and management of Benin's electrical utilities. Finally, fiscal reform is highlighted in the GAP under the pillar of improved economic management and includes proposals to reform the tax system, public sector employment levels and public investment planning.

4. THE PROPOSED OPERATION

A. LINKS TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1 The proposed DPO series aims at supporting the Government's effort to implement its GAP over the period 2016-2021 Its key objectives are to support the implementation of policy reforms that will strengthen fiscal management (Pillar 1) as well as to increase agricultural productivity and competitiveness and to strengthen the power sector's financial viability and production capacity (Pillar 2). Two operations are viewed as optimal to appropriately cover the reform program agreed to with the new administration without committing to an uncertain or potentially evolving reform program by extending the series over a prolonged period.

4.2 The first pillar of the DPO series will focus on supporting macroeconomic stability by strengthening fiscal management. Not only is adequacy of the macroeconomic and fiscal framework a prerequisite for sustainable economic growth but budgetary and debt sustainability is necessary to the delivery of effective public services that maximize the impact of available revenues on beneficiaries, including the poorest segments of the populations. In addition, increasing fiscal space will help relax fiscal constraints to accommodate the financing of needed infrastructure projects.

4.3 The second pillar will seek to promote economic growth by helping increase agricultural productivity and competitiveness and strengthening the power sector's financial viability. In agriculture, priority is given to improving the sector's policy and governance framework, which is the among the main factors constraining growth. This series focuses on measures that better the enabling environment that will facilitate access to technology, improve provision and targeting of capital investment in agriculture, mainly irrigation, and help increase market access through enhanced product quality. Ultimately, these measures, jointly with other World Bank operations in the sector, will contribute to increasing Benin's priority agri-food value chains' productivity and competitiveness. In the power sector, the measures supported by the operation strengthen its financial viability, which is necessary to attract private sector participation and, thus, increase electricity production capacity, including in renewables, and access to electricity in a sustainable way.

Lessons Learned

4.4 Previous DPO series in Benin (the latest being the Poverty Reduction Support Credit (PRSC) 9-11 series[5]) and related Implementation and Completion Reports (ICRs) and Independent Evaluation Group (IEG) evaluations have resulted in a number of lessons learned: (1) in past budget support operations, greater impact was achieved by concentrating prior actions in areas that were already the focus of World Bank investments, technical assistance (TA) operations, and/or donor activities; (2) budget support can be more effective if the series supports a targeted reform agenda with a well-designed objective rather than a broad agenda with multiple objectives; (3) resistance to change and administrative capacity limitations should not be underestimated; and (4) the operation's stated objectives and monitored results indicators must be realistic, focused on measures that are directly attributable to supported actions and consistent over time.

4.5 The latest PRSC series also confirmed that political economy considerations are essential while considering the timing, sequencing and level of ambition of supported reforms. In the previous PRSC series, governance and cotton sector reforms were not successfully implemented due to the presence of vested interests and internal resistance. The design of a DPF series needs to carefully consider the political economy of reforms and support gradual and steady progress in establishing a legislative and institutional environment conducive to reforms. The adoption of laws and rules needs to be followed up by close monitoring and subsequent regulations to ensure their proper enforcement over time. Hence the emphasis in this series is to ensure that reforms and actions supported by the first operation are directly reinforced by reforms and actions that will be supported by the second operation.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

The program development objectives of this Fiscal Reform and Growth Development Policy Operation (FRG) series are to:

a) support macroeconomic stability by strengthening fiscal management; and
b) promote economic growth by increasing agricultural productivity and competitiveness and strengthening the power sector's financial viability and production capacity.

Pillar 1: Strengthening Fiscal Management

4.6 The Government of Benin has ambitious public investment plans and is committed to addressing key infrastructural constraints, particularly in the areas of electricity and roads. To finance this program and achieve its goals, the new administration has taken significant measures to increase domestic revenue, and to streamline public spending. Some progress has been made, with the deficit falling from 8.0 percent of GDP in 2015 to 6.0 percent in 2016. Fiscal deficit is estimated to increase to 6.3 percent in 2017 to accommodate the Government's investment and development priorities but will decline in 2018 onwards as consolidation measures are envisaged in 2018 and 2019.

4.7 The first pillar of the proposed series will support the Government's efforts to strengthen fiscal management. Strengthening fiscal management is key to accommodate the financing of needed infrastructure projects while meeting the 2019 WAEMU fiscal targets. The proposed series will support

[5] Project numbers for the PRSC9-11 series are: P132786 for PRSC9; P146665 for PRSC10; and P157077 for PRSC11.

the authorities in the following areas: (a) strengthen domestic resource mobilization; and (b) improve the efficiency of public spending to create fiscal space.

Area A – Strengthen domestic resource mobilization

DPO1 Prior Action 1: To increase compliance with tax procedures and reduce tax evasion, the MEF has piloted an electronic system to exchange of information between the Tax Direction (DGI) and the Directory General of Customs and Indirect Taxes (DGDDI).

DPO1 Prior Action 2: To simplify tax collection and encourage compliance with tax procedures, the DGI has enabled the largest 100 taxpayers registered in its database to process their tax payments through a verified banking system.

DPO1 Prior Action 3: To strengthen evidence-based policy making, the MEF has established the Tax Policy Unit within its structure.

Background

4.8 Tax revenues to GDP ratio averaged 14.2 percent in the last five years, but declined to 12.6 percent in 2016. While this drop is partially linked to the recession in Nigeria[6], more effective tax policy and tax administration is required to create additional fiscal space needed to accommodate the country's ambitious public investment plan.

4.9 Relative to comparators, including WAEMU countries, the Government revenue in Benin has been historically low. During the last five years, tax revenue averaged 16.2 percent of GDP in WAEMU, which was about two percentage points above Benin's performance. With the best performing countries, such as Senegal, the gap reaches 5 percentage points. This gap suggests room for improvements.

4.10 The poor performance of Benin in revenue mobilization reflects inadequate tax policies and ineffective tax administration. On the tax policy side, the Government relies heavily on trade-related revenues that have been historically volatile. Domestic taxation has been penalized by tax evasion and generous tax exemptions. With respect to tax administration, the main weaknesses are related to the lack of human, financial, and technical resources, including the absence of a reliable information system. In 2017, the Government demonstrated its commitment to increase revenue performance by developing a new Strategic Plan (*Plan d'orientation stratégique de l 'administration fiscale* - POSAF).

Policy Actions under the Program

4.11 To promote tax compliance, the MEF has launched an electronic system to exchange information between the DGI and DGDDI (Prior Action 1). Close cooperation and exchange of taxpayer information is of great importance in support of audit control and efficient revenue collection by the customs agency and the revenue authorities.[7] Customs-related information at the border, such as value

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[6] Benin's revenue collection from informal re-export to Nigeria is estimated at 2 percent of GDP, equivalent to 15 to 20 percent of total tax revenues.

[7] In the general context of seeking efficient tax administration, the exchange of information between revenue authorities is a part of broader efforts of using third party information, including exchange of information from financial agents and other public

of imported commodities, is an important source for the revenue authorities in assessing and validating information used in domestic VAT declarations or in the corporate income tax declarations. The information exchange system launched by the MEF will allow for improved coherence, tracking and harmonization of information and is expected to lead to a reduction in tax evasion. Before this initiative, there was no information flow between the two systems. Incentives to evade taxes were higher and firms and individuals importing large quantities of goods often paid little in the form of income tax or sales taxes. Information sharing between DGI and DGDDI will allow tax administrators to follow the value chain from imports to eventual sale and reporting of income on the domestic market. Fewer taxpayers will fall through the net and, more importantly, better monitoring capacity will change the incentives structure and promote tax compliance.

4.12 To simplify tax payments and encourage tax compliance, the MEF has enabled the largest 100 taxpayers to process their tax payments through the banking system (Prior Action 2). In practical terms, the taxpayer must go to the e-services platform (www.eservices.impots.bj) on the DGI website (www.impots.finances.gouv.bj) to create an account. Once this step is completed, the taxpayer can create her/his payment slip, print it and share it with commercial banks to process the tax payment. For the pilot phase of the project, one hundred (100) large enterprises were selected. These companies fulfill their payment obligations at the counters of the banks in this experimental phase. Based on the data collected by the MEF, the pilot phase of the project was successful. During the first two months of implementation, almost 65 percent of the revenues of the largest enterprises were paid through the banking system. The MEF plans to extend the experimental phase to 200 large companies, accounting for 85 percent of the revenues of large companies.

4.13 Finally, this first operation supports the creation of a Tax Policy Unit in the MEF (Prior Action 3). The objective is to strengthen evidence-based policy making and evaluation of tax policy and tax policy options. Until now, tax policy formulation and assessment were conducted by disparate units across the ministry with little coordination nor cooperation. This Unit will take the lead in developing important studies on tax policy.

Government's Agenda for 2018

4.14 In line with the objective of simplifying tax payments and promoting tax compliance, the MEF plans to facilitate electronic tax payments for all taxpayers (Indicative Trigger 1). The General Directorate of Taxation is looking to implement a system that will allow tax payers to file and pay both value-added tax and income tax through an electronic platform. The system will allow taxpayers to process payments on-line via the banks' e-transaction channel from anywhere and at any time. This measure will generalize and extend the reform targeting the largest taxpayers and supported by Prior Action 2. The measure intends to make the declaration and payment procedures easier, faster and cheaper.

4.15 To strengthen evidence-based policy making and increase revenue collection, the MEF will operationalize the tax policy unit (Indicative Trigger 2) and streamline tax expenditures (Indicative Trigger 3). The tax policy unit, whose creation is supported by the first operation under this series, will be

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entities. In the Tax Administration Diagnostics Assessment Tool (TADAT), systematic use of third party information is considered a key dimension when assessing the revenue authorities' ability to assess risks to taxpayers' compliance. The recent study on Tax Administration reforms in the Caribbean (IMF WP 17/88) discusses the importance of enhancing synergies and exchange of information between tax and customs. The positive impact on revenue collection is discussed in a recent paper (D. Pomeranz, 2015, "No Taxation without Information – Deterrence and Self-Enforcement in the VAT").

made operational through the allocation of human and financial resources. One of the first issues that should be addressed by the tax policy unit are the generous tax exemptions. Tax exemptions have proliferated over the years with little coherence and standardization across tax payers and little thought given to long term cost-benefits balance of providing exemptions in specific cases. Measures related to the streamlining of tax expenditure have been elaborated in the Government's strategic tax plan (POSAF) and are being supported in close collaboration with the IMF. These include the preparation and publication of a new procedures manual on tax exemptions. Based on the recommendations of the analysis and the new procedures for tax exemptions, the MEF will streamline and contain tax expenditures.

Expected Results

4.16 These measures are expected to have a significant impact on tax revenue mobilization. The objective is to have tax revenue reaching at least 14.5 percent of GDP in 2019 (up from a 13.9 percent average registered during the period 2014-2016). The exchange of information between the DGI and DGDDI is expected to improve collection of income tax and VAT as importers are better identified and monitored. Tax expenditures, currently represent about 2 percent of GDP and around 15 percent of collected tax revenue. In 2015, about 38 percent of tax expenditure was linked to industry and commerce, 20 percent to telecommunications, 10 percent to energy sector, 9.5 percent to construction, 6.3 percent to agriculture, 5.3 percent health, 4.2 percent to international agreement on Embassy activities and only 2.2 percent to local development. The rationalization of tax expenditures will have a positive impact on revenue mobilization. Processing tax payments through the banking system will simplify tax payments and also strengthen the tax payment system by increasing tax payment points, limiting contacts between taxpayers and tax agents, and protecting public funds from mishandlings. In a second phase, the electronic platform for the tax declaration and payment will generalize and extend this system to tax filing and payment for VAT and income tax. Electronic tax payments are expected to grow fast and by 2019 about 70 percent of non-custom tax payments are expected to be processed through non-cash transactions.

Area B – Improve the efficiency of public spending to create fiscal space

DPO1 Prior Action 4: To enhance the accuracy of the Recipient's public payroll, the MEF has carried out a satisfactory staff census on all public sector employees, including civil servants, military, police officers and pensioners.

DPO1 Prior Action 5: To combat fraud and better target beneficiaries, the MEF, has facilitated payments through a verified banking system for:

a) pensions salaries over 50,000 CFA francs;
b) governmental scholarships;
c) periodic benefits of active civil servants.

Background

4.17 Benin needs to improve the efficiency of public expenditure to create fiscal space and finance its investment agenda. In 2015, the fiscal deficit more than tripled, reflecting a significant increase in current transfers, especially subsidies to the cotton and electricity sectors, as well as a higher wage bill. A high wage bill has been a perennial challenge in Benin, amounting to 55.5 percent of tax revenue in 2016, well above the WAEMU criteria of 35 percent. The new administration is demonstrating considerable commitment to redirect public resources from current expenditure to capital expenditure. In 2016, current spending went from 17.2 percent of GDP to 15.4 percent of GDP. However, the reduction of the fiscal deficit was limited by the fall of tax revenue (from 14.5 percent of GDP in 2015 to 12.6 percent of GDP in 2016) mostly because of the negative spillovers from Nigeria. To keep the implementation of the Government's investment plan sustainable, it is essential to strengthen revenue mobilization, but also increase the efficiency of current expenditure. To achieve a reduction in current expenditure, the Government's effort focuses on containing the wage bill (which is about 7 percent of GDP) and increasing the efficiency of SOEs.

Policy Actions under the Program

4.18 To lower the wage bill, the Government has launched a process to enhance the accuracy of the public payroll. The first step in this process, which is supported by this operation, consisted of the completion of a census of public sector workers, including civil servants, military and pensioners (Prior Action 4). Based on the results of the census, the number of ghost civil servants and pensioners could be as much as 8,000 or the equivalent of 6.6 percent of the existing payroll. Similarly, the census verified the presence of 23,352 military and police officers out of an expected workforce of 25,759 (based on the number of military and police officers paid through the payroll). The Government's efforts to increase the efficiency of personnel expenditure go beyond the measures aimed at addressing the issue of ghost workers as an independent international agency has been contracted to carry out an audit of the systems and process used in Benin to pay civil servants.

4.19 To improve the transparency of the payments, the Government launched a system that enable the processing of key non-wage payments through the banking system (Prior Action 5). The payments to be processed through this system include pensions above CFAF 50,000, scholarships, and periodic benefits of active civil servants. This measure aims at limiting cash payments, with the objective to improve transparency, reduce leakages, and to some extent the level of fraud and corruption.

Government's Agenda for 2018

4.20 A joint team of the MEF and the Ministry of Public Service will review each case flagged by the Census (supported by Prior Action #4) to verify which cases require an administrative action (Indicative Trigger 4). A joint team of the MEF and Ministry of Public Service will review on an individual basis whether the people identified by the audits as missing are working for the public administration or not. The joint team will: 1) verify whether the missing people are still alive; 2) contact the relevant department in the public administration to obtain proof that the missing people are employed; 3) by using data from the Direction of Immigration and Emigration, the joint team will also verify frequency and duration of travels abroad and its consistency with the working status. Once the ghost workers are identified, the joint team will initiate the procedure to remove the identified ghost workers.

4.21 To further increase the efficiency of personnel expenditures, the Government plans to harmonize the Integrated Human Resource Management System (SIGRH) with the budget and payroll system (Indicative Trigger 5). The MEF and the Human Resource Department of the Ministry of Public Service will work closely to implement this important measure which will not only ensure that only active employees are on the Government's payroll but also that salary and benefit obligations are made effectively and timely to employees. The new harmonized system will require clear reporting requirements for the databases and skilled staff to manage them.

4.22 To further increase the efficiency of public expenditure, the Government is planning to provide greater financial independence to SOEs and reduce SOE's reliance on direct fiscal support. State-owned enterprises pose significant budget costs and risks in terms of contingent liabilities. The Government has plans to introduce a new legislative and regulatory framework for SOEs, notably opening the possibility for the introduction of a performance based management system[8], and in some cases, as with Benin Electric Energy Company (*Société Béninoise d'Energie Electrique* – (SBEE)), the potential engagement of an external management firm to independently operate the utility or SOE. Government's plans are still preliminary at this stage but these efforts could be supported in the second operation in the series. Improving SOE performance not only helps strengthening fiscal and debt management by reducing the level of public subsidies and contingent government liabilities, but it is also important to support private sector competitiveness and economic growth, which will be supported by the second pillar of this operation.

Expected results

4.23 These measures taken together are expected to streamline spending and create fiscal space. As shown in the preliminary result of the census, the elimination of ghost workers can potentially reduce the wage bill by a significant amount. In addition, the trigger related to the harmonization of the SIGRH with the budget and payroll system (SunKWE) will reduce possible fraud through a better identification of employees and their benefits. As a result of the measures supported under this DPO series, 70 percent of identified ghost workers are expected to be removed from the civil service payroll and 80 percent of payments of pensions (above CFAF 50,000), scholarships, and periodic benefits of active civil servants are expected to be processed through the banking system by 2019.

Pillar 2: Increasing agricultural productivity and competitiveness and strengthening power sector's financial viability and production capacity

4.24 The success of Benin to attain the WBG twin goals in the coming years is highly dependent on its capacity to promote private sector development, which is the most efficient channel to create jobs and to reduce poverty. Achieving this goal will require an increase in the productivity and competitiveness of the agriculture sector, which still employs half of Benin's labor force, and unleash the potential of the non-farm sector, including in manufacturing and services. It will also require a regular and affordable supply of electricity, which is frequently noted as a leading constraint to private sector growth, particularly in the light manufacturing and agricultural processing sectors. The DPO series aims at supporting the Government in its efforts by focusing on two main objectives. The first is to increase the productivity and competitiveness of the agricultural sector through a series of measures aimed at developing high value chains and improving the quality of agricultural products. The second objective is to strengthen the power sector financial viability and production capacity with the goal of increasing reliable access to electricity, which is consistently viewed as one of the key constraints by firms operating in Benin. Based on the Government's reform program, next operation of this DPO series could also support a transformation of the water urban utility with the objective of leveraging and crowding in private finance while creating the conditions for better service delivery.

4.25 The measures supported under the second pillar are consistent with the World Bank cascade approach as they contribute to attracting private investment in two strategic sectors. First, in the

[8] It will be important to include environmental and social due diligence requirements in the performance based management system that the Government is planning to introduce.

agriculture sector, private investments will be enhanced by strengthening value chains and promoting access to finance. Second, in the power sector, the DPO series will help to promote private sector investment in power generation by supporting the set-up of a comprehensive framework for private sector participation (new Beninese Electricity Code) and the strengthening of the sector's financial viability (through the elimination of arrears and the development of a methodology to update electricity tariffs).

Area A – Increasing Agricultural Productivity

DPO1 Prior action #6: To promote the development of agricultural value chains within identified agro-ecological zones, the Recipient 's Council of Ministers has established Territorial Agricultural Development Agencies relevant for the needs of each said agro-ecological zone.

DPO1 Prior action #7: To enhance access to credit in the agricultural sector the Recipient's Council of Ministers has created the National Fund for Agriculture Development (FNDA) with a mandate to promote private investments in the agricultural sector.

DPO1 Prior action #8: To improve quality of agricultural products, the Central Laboratory for Food Safety (LCSSA) was reinforced through:

a) renewing its accreditation in accordance with the European Union standards;
b) extending the scope of its monitoring mandate;
c) executing a partnership protocol with the Benin Agency for Food Safety (ABSSA).

Background

4.26 **Despite its potential, Benin's agriculture suffers from low productivity; a weak sectoral policy and governance framework is a major limiting factor, compounding the technological constraints.** Benin's agriculture enjoys a favorable endowment of land and water resources; yet, while it employs about 50 percent of the workforce, it only generates about 25 of the GDP and uses only 20 percent of its arable land. This puts Benin in the lowest quarter of agricultural labor performance worldwide, and below the regional average. Land productivity is also low, with yields of major crops, including cotton, falling below those in comparator countries, and stagnating. An incomplete regulatory and policy reform process, and weaknesses in the governance system inhibit farmers' access to key productive resources, such as finance, water, land, and technology, and limits their ability to take advantage of the fast growing urban, regional and international markets that put a premium on product quality and safety.[9] These ultimately curb sector productivity.

4.27 **Some of the constraints identified above are already being addressed by ongoing World Bank's operations in the country.** The Agricultural Productivity and Diversification Project (PADA) is a sector support operation focusing on issues related to market access and rural infrastructure through support to market infrastructure, storage facilities for both inputs and production, and through small scale irrigation. The West Africa Agricultural Productivity Program (WAAPP, P094084) is promoting the adoption of agricultural innovation and access to improved inputs through support to agricultural research, extension

[9] These key constraints and priority areas are identified in the recently completed World Bank Benin Systematic Country Diagnostic.

and advisory services. The project also supports mechanization by promoting access to equipment and labor-saving technologies for women. Moreover, in September 2017 the World Bank has finalized an ASA on Land Tenure Policy in Benin (P161412), which will be used to inform potential future World Bank interventions in this key area. The new National Land Agency (ANDF, *Agence nationale du domaine et du foncier*), set up in 2016, is working to make access to land more efficient with technical support from German and Dutch Cooperation. Also, the Government has committed to improve the quality and network of rural roads with a target of 690 km for the 2017-2021 and started a dialogue with potential donors.

4.28 To alleviate sector constraints and better target public resources, the Government recently engaged in substantial institutional reform, driven by decentralization, spatial development and private sector led growth. This resulted in the creation of seven agro-ecological zones and seven zone-specific agencies, each promoting the integrated development of a priority agri-food value chain. In this context, several priorities unfold ahead. Firstly, research and technology generation and/or adoption will need to have a much sharper spatial focus, to effectively support a landscape-adapted agricultural development. Secondly, a coherent irrigation policy, taking fully into account spatial and priority crop specificities, needs to accompany technology adoption, and facilitate a higher and better targeted capital investment in agriculture. Thirdly, and finally, a quality policy is needed to facilitate the marketing of the agri-food products promoted under the new policy and institutional framework.

Policy Actions under the Program

4.29 The Government created decentralized, crop-specific development agencies to promote the development of value chains and ultimately boost productivity (Prior Action #6). The GAP lays out a plan to make agriculture an engine for growth and poverty reduction. Within this, two major reforms are worth highlighting: (i) the new institutional framework for agricultural development, characterized by the establishment of seven agro-ecological zones across the country, each with its own Agency (*Agence Territoriale de Développement Agricole*). Former Regional Rural Development Entities have been dismantled and replaced by a *Direction Départementale de l'Agriculture, de l'Elevage et de la Pêche* (DDAEP); and (ii) prioritization of value chains in cotton, maize, rice, cassava, pineapple and cashew; and greater reliance on private sector investment to promote them. This approach marks a significant change with respect to the past, when the scope of agricultural agencies was geographical but was not effectively targeted to specific agricultural products.

4.30 The Government strengthened the FNDA (Prior Action # 7) to encourage greater private investments in the agriculture sector. The FNDA was created in 2014 to promote, among other things, access to finance in the agriculture sector through the provision of guarantees. The FNDA has also a window devoted to non-financial services such as support to capacity building in agricultural research, extension and adoption of innovations. Unfortunately, the governance structure has proved inefficient, and FNDA has not been fully operational. In 2016, the Government put FNDA activities temporarily on hold until a Decree was published in 2017 to strengthen the FNDA governance and capacity. Based on the Decree, the Board of the FNDA is composed by representatives of both public and private sector, including delegates of key ministers; the National Platform of Agricultural Producers; the National Chamber of Agriculture; and the Civil Society Actors' Platform. An Executive Body will manage the daily operations of the FNDA. This Executive Body will be headed by a Director General, which will be recruited following a competitive process. Strengthening FNDA's governance and management is key to increasing the effectiveness of its actions. To make the FNDA operational, the Decree established that FNDA should be funded with an initial allocation for 2017 activities and with annual allocations established each year in the budget law.

4.31 **The certification and strengthening of a food-safety laboratory monitoring the quality of agricultural products (Prior Action # 8)** contributes to the improvement of quality standards, increases the competitiveness of the primary sector, and supports access to regional and international markets. Benin is already producing certain agriculture products for direct export to developed countries and regional markets. The three most important export products are cotton, pineapple, and cashew. Meeting quality standards is a key prerequisite to boosting agricultural exports and the potential and need for an accredited laboratory was confirmed by the 2014 Diagnostic trade integration study (DTIS). To address this need, the Government created a LCSSA which was certified in line with international standards in 2015 and was accredited for the monitoring of five microbiology parameters. The certification has been valid for two years and in 2017 LCSSA was re-certified for two more years and extended its accreditation to six additional chemical parameters. In addition, a partnership protocol between LCSSA and the ABSSA was signed to provide LCSSA with the samples to be tested and allow LCSSA to operate effectively and contribute to the country's food quality and safety agenda.

Government's Agenda for 2018

4.32 The success of the new value chain promotion strategy will greatly depend on the pace and the effectiveness of reforms which target: (i) funding of agricultural research and transfer of improved technology; (ii) removal of key capital and infrastructure constraints affecting farming, most notably in the irrigation sector; and (ii) access to finance, land and markets, the latter particularly through increased attention to food safety and quality. Thus, the proposed DPO will support the Government commitment to implement key reforms in these three areas.

4.33 Agricultural Research and Technology. The GAP focuses on promoting value chains that can yield higher value added, and this cannot be achieved without the full use of innovation and technological advances, properly adapted to the local circumstances. The need for generating and using adequate research and knowledge increases further when factoring in the climate threat and the acute land degradation in Benin. Acknowledging these, the Government will adopt by 2018 the National Program for Agricultural Research **(Indicative Trigger 6)**, which complements the agricultural component of the GAP. The research activities will be targeted to specific agricultural products cultivated in the different agro-ecological zones and will be financed from three main sources, namely: (i) Government budget; (ii) development partners; and (iii) other sources, which may include the FNDA.

4.34 Irrigation. Although water resources are generally available, the dominance of traditional production systems, relying heavily on rain fed farming systems, significantly limits productivity gains. Currently available irrigated land areas, primarily used for horticulture and rice production, cover only about 20,000 ha. Given available agricultural land and water resources, an estimated 322,000 hectares could be irrigated with surface water and between 20,000 to 30,000 hectares with ground water irrigation. The farming community, could increasingly diversify production, attain higher yields and achieve higher per capita incomes if the country were to invest in efficient irrigation schemes to tap into its water resource potential. To tackle the challenge, the Government will put in place by 2018 a new irrigation policy framework tailored to the development of priority sectors within the agro-ecological zones **(Indicative Trigger 7).** The new irrigation policy framework will complement and detail the GAP, and factor in the crop and spatial specific needs along the seven agro-ecological zones.

4.35 Market access and product quality. Overall, food consumers, and especially those in urban areas, are increasingly concerned about food and nutritional quality. This presents significant income generating opportunities for farmers, if they can seize them. However, the public sector needs to play a key role in this, as a guarantor and regulator. The World Bank[10] revealed that metrology was inadequate and quality control in the food system was either nonexistent or non-credible in the absence of certified laboratories. Furthermore, it concluded that informality in agriculture was not a choice of the private sector: it was a penalizing consequence of the State's incapacity to play the role it would/ought to in any modern economy. While until now, Benin did not have a specific policy addressing food quality in an integrated and coherent manner, the Government has committed to changing this. A cross-sectoral quality policy, with a component on agriculture, is in the process of being developed and adopted, in line with the Economic Community of West Africa State's (ECOWAS)regional quality policy **(Indicative Trigger 8)**.

Expected Results

4.36 The measures supported by this operation will have a short-term impact on agriculture intermediate indicators and a medium-term impact on the productivity and competitiveness of the agriculture sector. In the short term, the measures supported by this operation are expected to strengthen value chains (and increase the amount of processed products per ton of relevant agricultural produce), help increase the irrigated area, and improve the quality of agro-food products, all of which will contribute to agricultural productivity increases in the medium term.

4.37 Specifically, the short-term impact of the measures supported by the DPO will be assessed by monitoring: the increase in quantity of processed agricultural products, the expansion of irrigated areas, and the increase in the share of samples tested by the LCSSA, which meet international standards. The quantity of processed pineapple juice per ton of pineapples produced is expected to grow from 270 kg (2016) to 285 kg (2019); the quantity of processed cashew nuts per ton of cashew nuts produced is expected to increase from 55 kg (2016) to 58 kg (2019); and the quantity of milled rice per ton of rice produced is expected to increase from 220kg (2016) to 230 kg (2019). Irrigated land is expected to increase by three percent over the next two years: from 20,000 ha in 2017 to 20,600 ha in 2019. Finally, the contribution of LCSSA activities will become increasingly important to support the competitiveness of the sector and the proportion of tested samples of key export crops (pineapple and cashew) which are compliant with international standards is expected to increase from 90 percent in 2017 to 96 percent in 2019 for cashew, and from 85 percent to 93 percent for pineapple.

4.38 The medium-term agricultural productivity increases will, in fact, be the combined effect of this DPO and other ongoing World Bank operations. The World Bank is already actively involved in financing agricultural research and value chains development in Benin, through the West Africa Agriculture Productivity Program (WAAPP, US$20 million, P094084) and the PADA (US$71 million, P115886 and P160029). These operations will boost current productivity gains in pineapple, cashew, rice, maize and aquaculture.

Area B – Strengthen power sector financial viability and production capacity

DPO1 Prior Action #9: To strengthen financial viability of power sector, the Recipient has (a) cleared all its arrears accumulated against SBEE; and (b) ensured that SBEE has cleared 50 percent of its arrears accumulated against CEB in line with the SBEE and CEB's arrears clearance plan.

[10] Diagnostic Trade Integration Study (DTIS) Update, 2015.

DPO1 Prior Action #10: To ensure timely payments of electricity bills to SBEE, the Recipient's Ministry of Energy, Water, and Mines has initiated the replacement of conventional electricity meters with prepaid electricity meters.

Background

4.39 **Over the past few years, Benin has experienced persistent power shortages which have become a constraint on growth.** In March and December 2015, load shedding reached 16 hours per day, whereas it was 10 hours per day in 2016. During the past couple of years, Benin has been importing 95 percent of its power from Nigeria, Ghana and Ivory Coast through the joint Benin/Togo-owned power generation and transmission utility, *Communauté Electrique du Bénin* (Electric Community of Benin - CEB). Imports are supplemented by domestic power generation fueled by gas imported from Nigeria through the West Africa gas pipeline, which have been unreliable and below expected quantities. At the same time, electricity imports have also been unreliable due to generation shortages during peak seasons in Ghana, transmission bottlenecks for imports from Nigeria, and the poor financial health of the distribution utility in Benin (SBEE). Over the next three years, the significant investments in the transmission infrastructure within the West Africa Power Pool, and development of regional generation projects, is expected to provide Benin and other importing countries with multiple reliable options to import electricity at affordable prices. At the same time, Benin has the aspiration to invest in domestic generation capacity to reduce its reliability on imports and promote energy security.

4.40 **Part of the problem is rooted in the power sector's financial difficulties.** The power sector in Benin is not financially sustainable. SBEE's deficit, which is estimated at US$26 million, is due to several factors including technical losses (estimated at about 24 percent, as the distribution network is obsolete and overloaded), underpricing, and bill collection losses. The average tariff (CFAF 105 per Kilowatt hour (kWh)) is significantly lower than SBEE's cost of service (CFAF 162 per kWh). The system is stressed by a high level of arrears. Forty percent of the SBEE's bill amounts are uncollected, with the highest share coming from government institutions/arrears. As of June 2017, SBEE owed CEB CFAF 39 billion and CEB owed it foreign suppliers (Transmission Company of Nigeria (TCN), Volta River Authority (VRA), Compagnie Ivoirienne d'Electricité (CIE)) CFAF 86 billion. Solving these issues is essential to strengthen the power sector's financial viability.

4.41 **In addition, Benin's non-payments have a negative cascading effect on the financial viability of power trade in the sub-region.** CEB, which imports almost 90 percent of its power from Ghana (63 percent), Nigeria (26 percent), and Cote d' Ivoire (1 percent), relies on timely payments from both the Benin and Togo distribution utilities (SBEE and CEET) to honor payments to importing countries. CEB has been running a deficit, as its power import costs (estimated at about US$0.13 per kilowatt-hour) remain higher than the price it sells to Benin and Togo (US$0.11 per kilowatt-hour, which has been unchanged since 2010). The combined payments arrears from Benin and Togo and the non-cost reflective tariffs have deteriorated CEB's financial situation. As a result, CEB had accumulated CFAF 86 billion (about US$155 millions) of payment arrears—representing 1.1 percent of the GDP of both Benin and Togo—to the power utilities in Ghana (VRA), Nigeria (TCN), and Cote d' Ivoire (CIE), as of July 2017. The sizeable non-payment amount creates a lack of trust in power trade in the sub-region, and undermines the financial viability of the West Africa Power Pool (WAPP).

4.42 **In light of the above, addressing the non-payment of public sector's electricity bills and putting in place a framework for cost-recovery tariffs are critical to the financial viability of the power sector in**

both Benin and the sub-region. As Benin is at the epicenter of cross-border non-payments within the West Africa Power Pool, securing the payment of 22 percent of its energy consumption (public facilities' consumption) will go a long way to reduce arrears in the sector and restore trust in power trade in the sub-region. At the same time, paving the way to reduce operational inefficiencies and establish transparent and agreed procedures to reach cost-recovery electricity tariffs is essential to achieve financial viability, which is critical to attract private sector participation in power generation and trade.

Policy Actions under the Program

4.43 To improve the reliability of electricity service, the Government has adopted a sequencing strategy. The first step is to restore the financial viability of the sector by clearing existing arrears and implementing initiatives that will help collect more revenue. This first step is a precondition for encouraging the development of new production capacities, including through private sector participation and diversification in the energy mix. The second step is to adopt and implement the legal and institutional framework that will ensure the sustainable financial equilibrium of the sector, notably through a reduction of operational inefficiencies over time, including technical losses. The DPO series focuses on the first step.

4.44 To strengthen the financial viability of the power sector, the Recipient has cleared all public sector arrears with SBEE and SBEE has cleared more than 50 percent of its arrears with CEB (Prior Action 9). This action is the first step to start addressing the financial sustainability issues of the power sector. As described above, arrears accumulation has weakened the financial situation of the SBEE which in turn was not able to face its financial obligations including the payment of the bulk of electricity supplied by CEB. As a result, also the financial situation of CEB weakened and the power generation and transmission utility accumulated arrears with its suppliers abroad (VRA, CIE and TCN). This prior action is critically important also because it provides CEB with cash that can be used to start repaying its own arrears with foreign power providers.

4.45 To ensure timely payment of electricity bills to SBEE, the Recipient's Ministry of Energy, Water, and Mines has initiated the replacement of conventional energy meters with prepaid energy meters in the Public Administration (Prior Action 10). This prior action is complementary to the previous one. Once arrears are cleared, it is essential to put in place a system that prevents arrears from accumulating again. This is the objective of adopting pre-paid energy meters. The replacement of energy meters won't be carried out for selected structures[11] identified by the MEF, for which the MEF committed to prepay the electricity bills on a quarterly basis. Timely payment of electricity bills is essential to strengthen the financial viability of the whole power sector.

Government's Agenda for 2018

4.46 To strengthen the financial viability of power sector, SBEE will keep reducing its arrears with CEB in line with the plan established by the Government (Indicative Trigger 9). SBEE has agreed to a repayment schedule to fully clear its arrears with SBEE. Following a bullet payment of CFAF 24 billion in August 2017, SBEE will repay CFAF 500 million on a monthly basis, starting in September 2017 until arrears will be fully cleared. Clearing all the arrears of SBEE vis-à-vis CEB will ensure that CEB has the necessary resources to be able to pay its suppliers. In addition to improving the financial viability of the sector,

[11] The structures exempted from the replacement of energy meters include selected Ministries, such as the Ministry of Defense or the Ministry of Interior and Public Security, and the Presidency of the Republic.

improved payment discipline will send a positive signal to private investors in the sector and will attract potential independent power producers (IPP).

4.47 In addition, the Government will develop a transparent methodology for annually determining and updating electricity tariffs (Indicative Trigger 10). In particular, in order to make the system financially viable, it is key to update and publish reference values for the following tariffs a) wholesale power purchase tariff charged by CEB to SBEE, based on a weighted average of power generation costs borne by CEB from imports and domestic generation; b) power wheeling tariff charged by CEB to SBEE for any electricity passing through CEB's transmission grid, based on the costs of the transmission grid; and c) power retail tariff charged by SBEE to end-users, based on recovery of costs of service provision, and incorporating a mechanism for the MEF to provide a compensatory subsidy in the case that the cost of service cannot be fully borne by consumers. Until now, CEB's tariffs to SBEE do not distinguish between energy cost and the wheeling charge. In recent years, the SBEE has been granted the right to enter into an agreement with suppliers abroad which was an exclusive prerogative of CEB according to the Beninese-Togolese Electricity Code. Therefore, to increase transparency of tariffs and avoid hidden subsidies to the SBEE by CEB the wheeling charge should be determined and reflected in CEB tariffs applied to SBEE.

4.48 Finally, to promote private sector participation in the sector and greater investment in power generation, the Government will submit to Parliament in 2018 the draft of the new Beninese Electricity Code (Indicative Trigger 11). The actual Benin Electricity Code falls short in promoting private sector participation in the power sector through a transparent and competitive framework. The proposed new code is expected to set up a comprehensive framework for the private sector participation from project identification to the financial close. The draft code should be submitted to the parliament for adoption.

Expected Results

4.49 The measures supported by this series are expected to strengthen the financial viability of the power sector and promote private sector participation and power production. As a result of this action, SBEE arrears with CEB are expected to gradually diminish from a level of about CFAF 39.2 billion in August 2017 to CFAF 10 billion in 2019. In addition, the adoption of prepaid energy meters (and the prepayment of bills for highly sensitive institutions that do not use prepaid meters) is expected to bring SBEE's revenue collection rate from all public sector institutions from very low levels (estimated at about 5 percent in 2016) to about 70 percent of the total.

Table 4.1: Prior Actions and Analytical Underpinnings[12]

Fiscal Reform and Growth DPO 1 (FRG 1)	Analytical Underpinnings
PILLAR 1: STRENGTHENING FISCAL MANAGEMENT	
AREA A: STRENGTHEN DOMESTIC RESOURCE MOBILIZATION	
Prior Action 1: To increase compliance with tax procedures and reduce tax evasion, the MEF has piloted an electronic system to exchange information between the DGI and the DGDDI. **Prior Action 2:** To simplify tax collection and encourage compliance with tax procedures, the DGI has enabled the largest 100 taxpayers registered in its database to process their tax payments through a verified banking system. **Prior Action 3:** To strengthen evidence-based policy making, the MEF has established the Tax Policy Unit within its structure.	Analytical Underpinnings: Policy Note on Broadening the Tax Base (2013). PEFA Reports (2014, 2012 and 2007). Periodic IMF TA Reports. Custom Administration TA reports. Analysis of Central Financial Agencies (2011). Public Expenditure Review (2010). Progress Reports on the PFM Action Plan Public Expenditure Review (2010). Action Plan for Improving Public Financial Management 2009-2013. Policy Note on Macroeconomic Stability (2016). "No Taxation without Information – Deterrence and Self-Enforcement in the VAT" (Pomeranz, 2015). "Tax Administration Reforms in the Caribbeans" (IMF, 2017).
AREA B: IMPROVE THE EFFICIENCY OF PUBLIC SPENDING TO CREATE FISCAL SPACE	
Prior Action 4: To enhance the accuracy of the Recipient's public payroll, the MEF has carried out a satisfactory staff census on all public sector employees, including civil servants, military, police officers, and pensioners. **Prior Action 5:** To combat fraud and better target beneficiaries, the MEF has facilitated payments through a verified banking system for: a) pensions salaries over 50,000 CFA Francs; b) governmental scholarships; c) periodic benefits of active civil servants.	Analytical Underpinnings: Public Expenditure Review (2010). Action Plan for Improving Public Financial Management 2009-2013. Progress Reports on the PFM Action Plan Complementary Bank Operations and TA: Community Driven Decentralized Services Wage Bill TA (FY14).
PILLAR 2: INCREASING AGRICULTURAL PRODUCTIVITY AND COMPETITIVENESS AND STRENGTHENING POWER SECTOR'S FINANCIAL VIABILITY AND PRODUCTION CAPACITY	
AREA A: INCREASING AGRICULTURAL PRODUCTIVITY AND COMPETITIVENESS	
Prior Action 6: To promote the development of agricultural value chains within identified agro-	Analytical Underpinnings:

[12] Key findings of analytical underpinnings remain largely valid today and as such provide an adequate basis for the design of the prior actions.

Fiscal Reform and Growth DPO 1 (FRG 1)	Analytical Underpinnings
ecological zones, the Recipient's Council of Ministers has established Territorial Agricultural Development Agencies relevant for the needs of each agro-ecological zone. **Prior Action 7:** To enhance access to credit in the agricultural sector, the Recipient's Council of Ministers has created the FNDA with a mandate to promote private investments in the agricultural sector. **Prior Action 8:** To improve quality of agricultural products, the Central Laboratory for Food Safety (LCSSA) was reinforced through: a) renewing its accreditation in accordance with the European Union standards; b) extending the scope of its monitoring mandate; c) executing a partnership protocol with the Benin Agency for Food Safety (ABSSA).	Benin Systematic Country Diagnostic (2017) Policy Notes on Cotton and Agriculture (2016). Country Economic Memorandum (2009). Benin: Sustainable Options for Agricultural Diversification (2011). Diagnostic Trade Integration Study (2014). Poverty and Gender Assessment (2014). Complementary Bank Operations and TA: Agricultural Productivity and Diversification Project. West Africa Agricultural Productivity Program (WAAPP). Cotton Sector TA (FY14).
AREA B: STRENGTHENING POWER SECTOR FINANCIAL VIABILITY AND PRODUCTION CAPACITY	
Prior Action 9: To strengthen the financial viability of power sector, the Recipient has: (a) cleared all its arrears accumulated against; and (b) ensured that SBEE has cleared 50 percent of its arrears accumulated against CEB in line with the SBEE and CEB's arrears clearance plan. **Prior Action 10:** To ensure timely payment of electricity bills to SBEE, the Recipient's Ministry of Energy, Water, and Mines has initiated the replacement of conventional electricity meters with prepaid electricity meters.	Analytical Underpinnings: Policy Note on Energy (2016). Complementary Bank Operations and TA: Energy Service Improvement Project (P161015). Increased Access to Modern Energy Project (P110075). Facilitating Power Trade in Sub-Saharan Africa (P164011).

C. LINKS TO THE CPS AND OTHER WORLD BANK OPERATIONS

4.50 DPFs are a key instrument in the World Bank's ongoing policy dialogue with the Government of Benin and its development partners. The Country Partnership Strategy (CPS) for FY13-17 (Report No. 75774-BJ) noted the importance of relying on a combination of development policy and investment operations in order to encourage a coherent approach to supporting structural reforms. The CPS explicitly includes DPFs as a key IDA instrument for supporting Benin's SCRP III and in addressing the Government's request for greater donor harmonization on priority reforms. The proposed FRG series supports the first pillar of the CPS, focusing on increasing sustainable growth, competitiveness and employment.

4.51 The FRG series addresses the recommendations from the recently completed PLR[13], which reviewed CPS progress. The PLR noted the need for: (a) budget support operations to magnify the focus on macroeconomic and fiscal sustainability, which are supported under the first pillar of this series (strengthening fiscal management); and (b) strengthening the link between growth and poverty outcomes, which is supported under the second pillar of this series (promoting inclusive growth by increasing agricultural sector productivity and strengthening the power sector).

4.52 Several ongoing and planned projects are direct complements to this operation and provide financial and technical assistance, and institutional capacity-building in mutually reinforcing areas. These are noted in the preceding matrices and include: the ongoing IDA/IFC Competitiveness and Integrated Growth Opportunity Project (CIGOP, US$25 million, P104881); the West Africa Agriculture Productivity Program (WAAPP, US$20 million, P094084); the PADA (US$71 million, P115886 and P160029); the Decentralized Community Driven Services Project (US$76 million, P146597); a Public Investment and Governance Support Project (US$30 million, P147014); among others. Furthermore, the recently completed PLR, which extended the CPS for an additional year, identified the need for new investments and reforms in agriculture – an area supported under this series.

D. CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

4.53 Consultations for this program extended well beyond the development partner community. Engagement in Benin with civil society, the private sector, trade and labor unions, and across various government departments/ministries is well developed. The annual review exercise noted above includes the participation of numerous civil society groups and they actively participate in the review process and the various sessions organized over the review week. The MEF, in discussing the supported actions under the FRG series, frequently convened meetings of the various ministries involved where progress against various actions and triggers are discussed jointly. Ministries have the opportunity to present progress in the various areas, discuss challenges, (which are sometimes shared across ministries), and to propose solutions, modifications or timing changes to the various actions and triggers. This process is undertaken in a very open and transparent manner. In addition, the World Bank itself directly engages the broader community in Benin.

4.54 There is good collaboration among development partners in Benin. This is particularly true for budget support, though the number of donors providing budget support to Benin is declining. Annual Donor-Government reviews of progress under the SCRP III bring together donor representatives, central ministry staff and line ministry personnel, in an effort to gauge progress and highlight areas where greater attention and effort may be required in meeting stated objectives. These annual reviews typically include: (i) discussion, review and revisions of the common policy and results matrix, as well as the main performance indicators; (ii) coordination of comments on the SCRP III progress report; (iii) discussions on major policy areas, notably PFM, private-sector development, governance, decentralization and civil-service reform; and (iv) joint preparation of a comprehensive aide memoire identifying agreed-upon policy and reform actions. The donor community in Benin was consulted during the preparation of the proposed series and this consultative process has informed its design. Some of the measures under Pillar 1 (regarding domestic resource mobilization) and Pillar 2 (promoting the financial viability of the power sector) are also supported by the IMF and African Development Bank (AfDB) and Millennium Challenge Corporation (MCC), respectively.

[13] Report No. 106266.

5. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACTS

5.1 **The FRG series is expected to have a positive impact on poverty reduction.** Prior Actions 1 to 5 and their related triggers supporting measures to create fiscal space are expected to facilitate the delivery of essential public services and to contribute to a macroeconomic environment conducive to economic growth and private sector employment creation. A stable and predictable macroeconomic environment is necessary to limit uncertainty, to attract and sustain both domestic and foreign investment, to grow the formal economy and to generate increasingly productive employment opportunities. Furthermore, the creation of fiscal space allows for an increased allocation of fiscal resources to the delivery of essential social services, a direct contribution to poverty reduction and improved quality of life. Increased fiscal space also allows for implementation of the Government's public investment plans, which is conducive to the crowding-in of increased levels of private investment. As noted, the failure of growth to lead to poverty reduction in Benin largely reflects the highly informal nature of the economy and the lack of high productivity, high wage and secure employment opportunities. Fiscal and debt sustainability, and the macroeconomic certainty it engenders, along with better infrastructure and improved delivery of essential services will encourage and foster economic growth that is more formal in nature and thus more effective in reducing poverty.

5.2 **Indicative Trigger 3 provides a potential exception, as the recommendations of the tax expenditure analysis have not been finalized yet and could entail removing exemptions that benefit the poor.** Eighteen percent of taxes expenditure on VAT are related to basic foods; removing these exemptions could possibly have negative distributional impact on the poor. However, this scenario is unlikely given that tax exemptions on basic foods are regulated by a regional policy. In case some recommendations of the tax expenditure analysis suggest removing exemptions that potentially benefit the poor, a distributional impact analysis will be carried out to inform the Poverty and Social Impact Assessment (PSIA) for the next DPF. The measure supported by Indicative Trigger 3 is not expected to have a negative impact on the poor as civil servants constitute a relatively privileged part of the population and they are not poor.

5.3 **Prior action 6, 7 and 8 and related triggers in the subsequent operation focus on increasing agricultural productivity and competitiveness and contribute to the Government's poverty reduction goals**. In 2015, 60 percent of the rural population lived below the US$1.90 per day poverty line. As the rural population share is greater than the urban share, 65 percent of the poor reside in rural areas. As noted previously, limited agricultural growth (around 3.5 percent per year, which is approximately the rate of population growth in the country) has contributed to overall growth, but the impact on poverty reduction has been limited. Diversifying production into more valuable crops, and raising productivity should boost incomes among those involved in agriculture.

5.4 **Prior action 9, and 10 and related triggers, except the tariff reforms in the power sector, promote reliable access to electricity and a more cost-effective electricity provision and should have a direct and positive impact on the poor.** As discussed above, only 29 percent of Benin's households have access to electricity, and due to the significant disparities between urban and rural areas, only 6 percent of the rural population has access to electricity. The measures supported under this series will support the financial viability of the power sector which is a necessary condition to attract private investments, increase power production, improve power transmission and distribution, and ultimately improve access to electricity in Benin. Increased access to electricity is strongly correlated with improved education and health outcomes and associated increases in human capital and earning potential. Furthermore, access to electricity liberates non-paid family time demands, particularly for women and girls, and further increases quality of life and opportunities for investment in human capital, including in girls and women. Increased and more reliable access at affordable prices should also have a significant impact on firm creation, firm growth and resultant employment opportunities, particularly in the higher productivity formal sector.

5.5 A full-fledged PSIA has been carried out to assess the potential impact of electricity pricing reforms in Benin (see Annex 4). The PSIA concluded that improving the financial situation of the SBEE and thus reducing the gap between SBEE's service unit cost and revenues per kWh are prerequisites for the expansion of SBEE operations throughout the country and greater access for poor households to electricity. The PSIA study also concluded that the current social policy of subsidizing the tariff for the poor is not effective and suggested some possible options to strengthen the policy including adopting a tariff policy based on usage and eliminating fixed costs for small customers.

B. ENVIRONMENTAL ASPECTS

5.6 The reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country's environment, forests and other natural resources. Over the last 20 years, the Government has made significant strides in mainstreaming environmental sustainability in projects. Environmental Impact Assessment (EIA) is a legal requirement and it is widely applied to all developmental projects. Environmental assessment is a necessary condition to obtain the approval to implement any development project. It has been set up in Law N° 98-30 relating to the environmental framework and in Decree N° 2001-235 relating to the environmental assessment procedures.

5.7 In July 2015, the existing EIA decree was reviewed, approved and adopted by the Government. The new EIA decree is Decree 2015-382 of July 9, 2015. It is a harmonized decree that covers environmental assessment, audit, public consultation and environmental inspection. In addition, the new decree recognizes the use of frameworks (Environmental and Social Management Framework or Resettlement Policy Framework) for projects whose locations and sites are not known at the project preparation phase. The national environmental protection agency (ABE) is institutionally empowered to review and clear EIAs; and to provide certificates of environmental conformity. It is also one of the reference environmental protection agencies in the West and Central Africa region.

5.8 The policies supported by the proposed DPF are not likely to have negative impacts on the country's environment, forests, and other natural resources. All the actions supported throughout the operation are policy-oriented; they do not support direct environmentally impactful investments or involve policy actions with significant environmental consequences.

5.9 Prior actions and triggers designed to strengthen economic competitiveness are also largely environmentally neutral. Strengthening the financial viability of the power sector (Prior Actions 9 and 10) is essential to promote increased access to electricity in Benin. The reform program supported under the energy sector is likely to have positive environmental impacts and would help in the reduction of greenhouse gases occasioned by the predominance of fuel biomass (fuelwood, charcoal and plant wastes). The prior action of strengthening the financial viability of the power sector is likely to produce climate change mitigation co-benefit, since strengthening the financial viability of the sector is likely to promote the development of new energy efficient production capacities. In the agricultural sector, measures intended to diversify agriculture away from a reliance on cotton could have a potentially positive environmental effect as agriculture becomes less mono-culture based and increasingly diversified. ABE has the capacity to implement, monitor, and report on mitigating measures and/or environmental and social management plans; and has been working in direct collaboration with the environmental and social specialists of the World Bank funded projects.

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.10 The Public Expenditure and Financial Accountability (PEFA) assessment completed in 2014 revealed mixed performances in Benin's PFM system. Despite actions taken to improve the participatory process in budget preparation, great challenges remain in this area especially in aligning annual budgets to public policies. Budget execution and controls are also affected by the insufficient integration of the PFM information system, the frequent use of exceptional procedures and the lack of human, financial and material resources which limit the effectiveness of national oversight institutions. Some progress has been noted in respecting legal deadlines for public financial reporting and external auditing but there is still a need for improvement on the quality of the work done. Significant progress was made over the course of 2014 and 2015 through the recruitment of additional staff and the dissemination of ASTER accounting software. The audit backlogs for 2010, 2011, 2012, and 2013 have been cleared by the *Chambre des Comptes*. These annual audit reports were submitted to the National Assembly on October 7, 2014, simultaneously with the 2015 budget. The audit report for 2014 was completed by the Chamber of Accounts and approved by the National Assembly in June 2016. The new Organic Law on Financial Legislation (LOLF) was passed in 2013, and the authorities are in the process of adapting to this more rigorous budget regime. The Government has also adopted an action plan for procurement reform, and this plan is in line with both the WAEMU procurement directives adopted by the Council of Ministers in 2005 in the context of the Regional Procurement Reform Program supported by IDA and other donors and the Baseline Indicators developed and adopted by the World Bank, Organization for Economic Cooperation and Development (OECD) and IDA. The new procurement code was approved by the Council of Ministers in late 2007 and by the National Assembly in early 2009; the passage of regulations to render it effective was included as a prior action in a previous budget support operation. Following the 2014 PEFA and 2014 PEMFAR, the Government initiated a revision of the procurement code considering the weaknesses identified. The new code has been adopted by the National Assembly in September 2017. The Government also requested a Public Investment Management Assessment (PIMA) and the first mission of the PIMA has been carried out in October 2017.

5.11 This FRG series builds on the achievements made under previous DPL operations and series, including measures to strengthen planning, budgeting and procurement processes. The fiduciary environment has been deemed adequate for the proposed operation. The Government's budget is now being published and is publicly available on the MEF's website, as are quarterly budget-execution reports.

5.12 The BCEAO continues to improve its governance structure. The 2013 assessment of the WAEMU regional Central Bank, BCEAO, found a continuing strong control environment. All recommendations from the assessment have been implemented. These include strengthening the external audit arrangements by appointment of an international firm with International Standards on Auditing (ISA) experience for the audits of FY15–17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adoption of IFRS starting with the financial year 2015[14].

[14] Reference to the BCEAO Safeguards Assessment and the wording and statements provided in paragraph 5.13 are as provided by the IMF in its Country Report No. 17/100. The World Bank has been unable to verify these statements or confirm their accuracy.

5.13 Audit reports produced by the *Chambres des Comptes* on financial flows related to donor budget support affirm amounts disbursed by IDA to the country under previous DPL operations. While adequate for the purposes of confirming such amounts, the Supreme Audit Institution still needs to be reinforced to fully fulfill its responsibility around jurisdictional controls.

5.14 The proposed operation would consist of a single-tranche of EUR 33.9 million (equivalent to US$40 million) to be made available upon effectiveness and disbursed on the basis of a withdrawal application. The Recipient is the Republic of Benin, represented by the Ministry in charge of Economy and Finance. The proposed operation would follow IDA's disbursement procedures for development policy operations and would not be linked to specific purchases. Credit proceeds would be disbursed against satisfactory implementation of the development policy program and maintenance of a satisfactory macroeconomic framework.

5.15 Once the financing becomes effective, and provided IDA is satisfied with the program being carried out by the Recipient and the appropriateness of the Recipient's macroeconomic policy framework, the proceeds will be deposited by IDA into the MEF's account at the Central Bank which forms part of the country's foreign-exchange reserves. The Recipient shall ensure that upon the deposit of the credit into said account an equivalent amount in local currency is credited in the Recipient's budget management system in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to local currency to the budget-management system within 30 days of deposit. The equivalent amount in CFAF reported in the budget system will be based on the market rate at the date of the transfer. The proceeds of the credit will not be used to finance expenditures excluded under the Financing Agreement. If the proceeds of the credit are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund, promptly upon notice, an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such a request shall be cancelled. The closing date of the operation will be June 30, 2018. The deposit accounts may be audited on terms of reference acceptable to IDA should IDA determine that such an audit is necessary.

D. MONITORING, EVALUATION AND ACCOUNTABILITY

5.16 The MEF is responsible for overall implementation of the proposed FRG series. The ministry's Monitoring Unit for Economic and Financial Programs (*Cellule de Suivi des Programmes Economiques et Financiers* – CSPEF) leads the Government's technical team, with additional representatives from sector ministries participating as required.

5.17 The Government has determined that the monitoring and evaluation of the DPF series and other externally financed budget-support operations will be based on performance indicators and targets set out in sector program budgets. Sector ministries collect data and transmit it to CSPEF, which analyses the data and produces periodic reports. This framework, which builds on the mechanism put in place for Benin's PRSPs, supports the coordinated action and synergies between stakeholders involved in the monitoring and evaluation of the Government's strategy and the provision of donor support. The donor community and the Government have agreed to an annual review process that includes quarterly review meetings, additional meetings on special subjects as needed, a mid-year progress review on the previous year's aide memoire, individual sector reviews, a joint donor-government review mission and the preparation of a new aide memoire for the coming year. The World Bank is fully involved in this process, participating in and contributing to every element of it.

5.18 Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaints to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org".

6. SUMMARY OF RISKS

6.1 The overall risk level associated with this operation is substantial. Substantial governance, institutional capacity, and macroeconomic risks could adversely impact the PDO, as discussed in the following paragraphs. Despite the substantial risk rating, staff believe that the potential benefits of the proposed operation outweigh the risks involved and warrant IDA's assistance in proceeding with the operation and in implementing the critical reforms and policy actions supported by this operation, in coordination with other donors, along with appropriate risk mitigation actions.

6.2 Macroeconomic risks are deemed high. The expected fiscal adjustment is significant. The large investment program proposed by the GAP entails significant risks. If the investment program does not result in significant economic growth and revenue generation, increasing debt levels might be difficult to sustain. GAP's reliance on PPP is also a source of risks. New institutional structures, and past performance in execution and procurement practices, raise concerns around transparency, value for money and leakages and the high level of PPPs envisaged under the GAP gives rise to concerns around contingent liabilities. In addition, there is a risk of underestimating the increase in recurrent spending (operations and maintenance expenditures) stemming from the surge in capital spending. On the financing side, the tightening of BCEAO's monetary policy creates a risk as regional commercial banks find less profitable to purchase government's securities. Benin's recent bond issuances have been under-subscribed as commercial banks appear increasingly hesitant to take on additional government paper. Finally, Benin's economy is deeply interconnected with Nigeria and this creates a significant source of risk. According to estimates available, a 1 percentage point reduction in Nigeria's GDP growth rate is associated with 0.3 percentage point reduction in Benin's growth rate. Some of these macroeconomic risks are partially mitigated by the prior actions and triggers supported under this series.

6.3 The recently approved ECF program and substantive on-going policy dialogue with the World Bank and IMF on macroeconomic, structural and PFM issues counter-balances these risks. The Government's prompt and appropriate action to several recent concerns expressed by the World Bank/IMF confirms the Government's commitment to sound macroeconomic and fiscal management and its willingness to engage and to accommodate expressed concerns as they arise. Also, to help mitigate some risks the World Bank delivered a set of policy notes to the President and administration to raise awareness of key development challenges, provide advice on potential implementable solutions over the short- and medium-term, and provide some guidance on how the World Bank can assist Benin in addressing these outstanding issues and challenges. The World Bank also continues to engage with key stakeholders outside the administration, including the National Assembly and technical staff in sector ministries, in an effort to build consensus regarding key reforms. These efforts are complemented by the dissemination of ASA to publicize the advantages of priority structural reforms.

6.4 **Political and governance risks are considered substantial**. Lack of certainty regarding political and governance developments creates a substantial risk at this point, particularly in the context of a new administration whose track-record is not yet fully established. As noted by the GAP, "corruption continues to affect, to an alarming degree, the functioning of all sectors". Vested interests have been able to affect courts' rulings on economic crimes**.** The President had proposed to revise the Constitution to foster transparency and accountability by public office holders but the National Assembly rejected in April 2017 the proposed revision. The new administration has ambitious public investment plans, rooted in electoral promises, and has demonstrated a willingness to push the public investment envelope beyond the levels and parameters agreed to with the World Bank and the IMF as supported by the IMF's ECF program. The Government has proposed "innovative financing" approaches to fund its ambitious investment plan, which could have a significant impact on the budget and public debt levels. To mitigate this risk, multilateral institutions will support the Government by monitoring the Government's proposal and resisting financing approaches that could lead to internal imbalances. Within the context of the IMF Program, the Government undertook to refrain from entering any pre-financing contracts. This is commitment is a continuous performance criterion of the IMF-supported program which partially mitigates political and governance risks.

6.5 **Substantial implementation and sustainability risks arise from capacity constraints and weaknesses in public administration that may hinder the implementation of ambitious reforms.** Key constraints include: (i) low salaries and perverse incentives within the public administration, which limit the Government's ability to retain and recruit skilled staff in vital positions; (ii) the ambiguity of the administrative structure in some ministries, which complicates the implementation of sectoral reform strategies; and (iii) potential resistance to politically sensitive reforms implemented by the new administration, i.e., resistance to change and capacity limitations in change management. To help mitigate these risks the proposed operation focuses on a limited range of policy areas to support deeper reform efforts with a focus on practical implementation. In addition, the World Bank continues to provide ASA and TA support in difficult areas such as port and custom procedures, governance reform and tax policy to advance Benin's reform strategy and bolster its efforts to effectively implement priority measures.

6.6 **Climate change and disaster risk screening was considered and determined not to be of fundamental concern for this current series**. Climate change considerations are gaining increasing prominence in the context of Government policy decisions and will perhaps become more relevant in future budget support operations. Disaster management and mitigation are also on the authorities' policy agenda, particularly in terms of flood control, but again are not central to the current series' policy package.

Table 6.1: Summary of Risk Ratings

Risk Area	**Rating**
Political and governance	Substantial
Macroeconomic	High
Sector strategies and policies	Moderate
Technical design of program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Moderate
Environmental and social	Low
Stakeholders	Low
OVERALL	**Substantial**

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions for FRG 1	Indicative Triggers for FRG 2	Results Indicators (by end-2019)
PILLAR 1: STRENGTHENING FISCAL MANAGEMENT		
AREA A: STRENGTHEN DOMESTIC RESOURCE MOBILIZATION		
Prior Action 1: To increase compliance with tax procedures and reduce tax evasion, the MEF has piloted an electronic system to exchange information between the DGI and the DGDDI.		**Tax revenue as a percentage of GDP:** Baseline (average 2014-2016): 13.9 percent Target (2019): 14.5 percent
Prior Action 2: To simplify tax collections and encourage compliance with tax procedures, the DGI has enabled the largest 100 taxpayers registered in its database to process their tax payments through a verified banking system. **Prior Action 3:** To strengthen evidence-based policy making, the MEF has established the Tax Policy Unit within its structure.	**Indicative Trigger 1:** The MEF has simplified tax payments for the rest of the taxpayers by launching a system to allow for the electronic declaration and payment of value added tax and income tax. **Indicative Trigger 2:** The MEF has operationalized the tax policy unit by allocating human and financial resources. **Indicative Trigger 3:** To increase revenue collection, the MEF has implemented the recommendations derived from a comprehensive analysis of tax expenditures.	**Share of non-customs taxes paid through the banking system and the e-payment system:** Baseline (2016): 0 percent Target (2019): 70 percent
AREA B: IMPROVE THE EFFICIENCY OF PUBLIC SPENDING TO CREATE FISCAL SPACE		
Prior Action 4: To enhance the accuracy of the Recipient's public payroll, the MEF has carried out	**Indicative Trigger 4:** A joint Team of the MEF and the Ministry of Public Service will review	**Share of identified ghost workers removed from the civil service payroll:**

a satisfactory staff census on all public sector employees, including civil servants, military, police officers, and pensioners.	each case flagged by the Census to verify which cases require an administrative action. **Indicative Trigger 5:** To ensure that only active public sector employees are paid, the MEF and the Ministry of Labor and Civil Service have harmonized and connected the Human resource management information system (SIGRH) with the Payroll Management Application (SunKWE).	Baseline (2016): 0 percent Target (2019): 70 percent
Prior Action 5: To combat fraud and better target beneficiaries, the MEF has facilitated payments through a verified banking system for: a) pension salaries over 50,000 CFA Francs; b) governmental scholarships; c) periodic benefits of active civil servants.		**Share of payments of pensions (above CFAF 50,000), scholarships, and civil servants' benefits processed through the banking system:** Baseline (2016): 0 percent Target (2019): 80 percent
PILLAR 2: INCREASING AGRICULTURAL PRODUCTIVITY AND COMPETITIVENESS AND STRENGTHENING POWER SECTOR'S FINANCIAL VIABILITY AND PRODUCTION CAPACITY		
AREA A: INCREASING AGRICULTURAL PRODUCTIVITY		
Prior Action 6: To promote the development of agricultural value chains within identified agro-ecological zones, the Recipient's Council of Ministers has established Territorial Agricultural Development Agencies relevant for the needs of each said agro-ecological zone.	**Indicative Trigger 6:** The Government has adopted the National Program for Agricultural Research (NPAR) by recruiting agents for the experimental stations and launched agro-ecological zone-specific research activities.	**Average quantity (kg) of processed cashew (C), pineapple juice (P), and milled rice (R) for each ton produced:** C - Baseline (2016): 55, Target (2019): 58; P - Baseline (2016): 270, Target (2019): 285; R - Baseline (2016): 220, Target (2019): 230.
Prior Action 7: To enhance access to credit in the agricultural sector, the Recipient's Council of Ministers has created the FNDA with a mandate to	**Indicative Trigger 7:** In the context of the new agricultural strategy, the Government has put in place a new irrigation policy framework	**Increase in Irrigated Land** Baseline (2017): 20,000 ha Target (2019): 20,600 ha

promote private investments in the agricultural sector.	tailored to the development of priority sectors within the agro-ecological zones and endowed it with an adequate budget allocation.	
Prior Action 8: To improve quality of agricultural products, the Central Laboratory for Food Safety (LCSSA) was reinforced through: a) renewing its accreditation in accordance with the European Union standards; b) extending the scope of its monitoring mandate; c) executing a partnership protocol with the Benin Agency for Food Safety (ABSSA).	**Indicative Trigger 8:** The Government has adopted the National Policy for Quality and started the implementation of the Action Plan for the agriculture sector.	**Share of cashew (C) and pineapple (P) samples tested by LCSSA which meet international standards:** C -Baseline (2017): 90 percent, Target (2019): 96 percent. P -Baseline (2017): 85 percent, Target (2019): 93 percent.
AREA B: STRENGTHENING POWER SECTOR FINANCIAL VIABILITY AND PRODUCTION CAPACITY		
Prior Action 9: To strengthen the financial viability of power sector, the Recipient has (a) cleared all its arrears accumulated against SBEE; and (b) ensured that SBEE has cleared 50 percent of its arrears accumulated against CEB in line with the SBEE and CEB's arrears clearance plan.	**Indicative Trigger 9:** SBEE has kept reducing its arrears with CEB in line with the plan established by the Government (arrears reduced by CFAF 500 million each month).	**SBEE's arrears with CEB:** Baseline 2017: CFAF 39.2 billion Target 2019: CFAF 10 billion
Prior Action 10: To ensure timely payments of electricity bills to SBEE, the Recipient's Ministry of Energy, Water, and Mines has initiated the replacement of conventional electricity meters with prepaid electricity meters.	**Indicative Trigger 10:** The Government has developed a transparent methodology for annually determining and updating electricity tariffs.	**SBEE's revenue collection rate from all public sector institutions:** Baseline (2016): 5 percent Target (2019): 70 percent
	Indicative Trigger 11: To promote private sector participation in the power sector, the Government has submitted to Parliament a draft Electrical Code.	**Legal framework supports private sector participation in the power sector:** Baseline (2016): No Target (2019): Yes

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTÈRE
DE L'ÉCONOMIE
ET DES FINANCES

RÉPUBLIQUE DU BÉNIN

Tél : 21 30 10 20 – Fax : 21 30 18 51
01 BP ; 302 COTONOU – ROUTE DE L'AEROPORT
www.finances.bj

REPUBLIQUE DU BENIN
MEFPD

LETTRE DE POLITIQUE DE DEVELOPPEMENT

Octobre 2017

INTRODUCTION

1. La présente lettre de politique de développement rappelle les progrès réalisés par le Bénin au plan économique et social au cours de ces dernières années et les politiques que le Gouvernement entend poursuivre pour stimuler l'essor économique et consolider les progrès de développement avec le programme d'appui budgétaire général (dénommé Fiscal Reform and Growth Credit –FRGC en anglais) pour lequel il sollicite un appui de la Banque Mondiale.

2. Les principales mesures du programme ambitionnent de : (i) soutenir l'efficacité et l'impact des dépenses publiques aux fins de l'amélioration des services publics au profit des populations vulnérables ; et (ii) renforcer les conditions d'une croissance soutenue pour une réduction significative de la pauvreté.

3. Le présent document s'articule autour des points ci-après : (i) contexte et évolution récente de l'économie ; (ii) politique de réformes et (iii) dispositif de coordination, de suivi de la mise en œuvre des politiques de réformes.

I - Contexte et évolution récente de l'économie

4. Dans le cadre de sa politique de développement, au cours des six dernières années, le Gouvernement a mis en œuvre la Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP 2011-2015) qui est arrivée à terme à la fin de l'année 2015. Elle constitue la troisième génération de stratégie et comprend les cinq axes suivants : (i) l'accélération durable de la croissance et de la transformation de l'économie ; (ii) le développement des infrastructures ; (iii) le renforcement du capital humain ; (iv) la promotion de la bonne gouvernance ; et (v) le développement équilibré et durable de l'espace national.

5. Le point de la mise en œuvre de la SCRP 2011-2015 laisse apparaître que l'activité économique a enregistré une consolidation à partir de 2011 jusqu'en 2013, puis un léger ralentissement en 2014 avec un taux de croissance économique réel ressorti à 6,5% en 2014 contre 6,9% en 2013. En 2015, le niveau de l'activité économique diminuerait avec un taux de croissance estimé à 2,1% selon les prévisions du FMI. En 2016, le taux de croissance économique est ressorti à 4,0 % ; en nette remontée par rapport à 2015 en lien avec les récoltes exceptionnelles réalisées après des conditions météorologiques plus favorables. Cependant, les mesures de politique mises en œuvre au cours de la période 2011-2015 n'ont pas permis une diminution de la pauvreté, le taux de pauvreté monétaire étant passé de 37% en 2011 à 40,1% en 2015.

En matière de gestion du cadre macroéconomique, il faut noter qu'au terme du dernier programme économique et financier conclu avec le FMI et achevé de manière satisfaisante en 2014, le Gouvernement du Bénin s'est engagé en 2017 avec le FMI dans un nouveau programme triennal soutenu par le mécanisme de Facilité élargie de crédit (FEC) qui a été approuvé par le Conseil d'Administration le 07 avril 2017. Dans ce cadre, le Gouvernement a retenu de mettre en œuvre un ensemble de mesures destinées à préserver la stabilité macroéconomique et financière et à relever les niveaux de vie. Ces efforts comprennent des réformes destinées à améliorer l'efficacité des dépenses publiques et à mobiliser des recettes supplémentaires. Les conclusions de la première revue du programme avec le FMI, achevée le 27 septembre 2017, confirment que sa mise en œuvre est globalement satisfaisante et que tous les indicateurs de suivi du programme (quantitatifs et structurels) qui ont été arrêtés avec les autorités dans le cadre de l'accord sont respectés (Communiqué de presse n°17/375 du 27 septembre 2017).

6. En perspective, le Gouvernement ambitionne à travers son Programme d'actions (le Bénin Révélé) de « relancer de façon durable le développement économique et social du Bénin ». En particulier, pour l'année 2017, la politique économique visera : a) l'investissement pour une agriculture d'envergure et le développement de quatre (04) filières phares (maïs, riz, ananas, anacarde) ; b) la promotion de l'industrie de transformation et la professionnalisation de l'artisanat ; c) le développement du capital physique et des infrastructures (routes, énergie, TIC notamment) ; d) la promotion d'un capital humain de qualité et attractif pour les créateurs de richesse ; e) le développement du tourisme, l'aménagement et la vitalisation du territoire. Ces interventions prendront, entre autres, en compte les préoccupations transversales telles que l'amélioration de la gouvernance, la lutte contre les effets néfastes des changements climatiques, la promotion de l'emploi des jeunes, etc.

7. Dans cette perspective, le Bénin a lancé le processus d'élaboration d'un Plan National de Développement(PND) 2017-2025 ainsi qu'un Programme de Croissance pour le Développement Durable (PC2D) 2017-2021. Ce dernier Programme qui s'inscrit dans le contexte de la mise en œuvre de l'agenda 2030 sur les Objectifs de Développement Durable (ODD) et de l'agenda 2063 de l'Union Africaine, constitue le document d'opérationnalisation du Plan National de Développement.

8. Conscient du présent contexte, le Gouvernement entend mettre en œuvre une série de réformes pour soutenir la réalisation des progrès attendus.

II - Politique de réformes envisagées

9. Les réformes retenues pour la première année du programme (FRGC 1) pour lequel le Gouvernement sollicite l'appui de la Banque Mondiale portent sur : (i) le renforcement de la gestion budgétaire et (ii) la compétitivité agricole et la viabilité financière du secteur de l'électricité.

Renforcement de la gestion budgétaire

Les réformes prévues pour le FRGC 1

10. Dans la Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP 2011-2015), le Gouvernement avait retenu le renforcement de la qualité de la gouvernance comme un axe essentiel de la stratégie. Il en est de même pour le Programme d'Actions du Gouvernement (le Bénin Révélé) où l'amélioration de la gouvernance constitue une préoccupation transversale prioritaire. Les axes des

actions menées ou prévues dans le cadre du FRGC 1 concernent essentiellement (1) l'accroissement de la transparence et du civisme fiscal pour le renforcement de la mobilisation des ressources domestiques et (2) l'amélioration de l'efficience des dépenses publiques pour la création de l'espace budgétaire.

11. En ce qui concerne l'accroissement de la transparence et du civisme fiscal pour le renforcement de la mobilisation des ressources domestiques, le Gouvernement a retenu au nombre des priorités : (i) le renforcement du civisme fiscal à travers le lancement par le Ministère de l'Economie et des Finances d'un système électronique d'échange d'informations entre la Direction Générale des Impôts (DGI) et la Direction Générale des Douanes et Droits Indirects (DGDDI) ;(ii) la simplification des paiements d'impôts et taxes et le renforcement du civisme fiscal en permettant aux 100 plus grands contribuables de traiter leurs impôts par le biais du système bancaire et (iii) le renforcement de la formulation de politiques fiscales fondées sur des données et analyses probantes à travers la création de l'Unité de politique fiscale.

12. S'agissant de l'amélioration de l'efficience des dépenses publiques pour la création d'espace budgétaire, les efforts entrepris par le Gouvernement ont consisté à (i) l'identification des travailleurs fictifs, notamment à travers le recensement-payement de tous les travailleurs du secteur public, y compris les fonctionnaires, les officiers de l'armée et de la police et les retraités et (ii) le renforcement de la transparence et meilleur ciblage des bénéficiaires de pensions supérieures à 50 000 francs CFA, de bourses d'études et avantages périodiques des fonctionnaires actifs à travers leur paiement par le biais du système bancaire.

Les réformes attendues pour le FRGC 2 en 2018

13. En ce qui concerne l'accroissement de la transparence et du civisme fiscal pour le renforcement de la mobilisation des ressources domestiques, pour l'année 2018, le Gouvernement entend accorder une priorité pour (i) la simplification des paiements d'impôts et taxes pour les contribuables en lançant un système permettant la déclaration électronique et le paiement de la taxe sur la valeur ajoutée et de l'impôt sur le revenu, (ii) l'opérationnalisation de l'Unité de politique fiscale en lui allouant des ressources humaines et financières et (iii) l'accroissement de la collecte des recettes par la mise en œuvre des recommandations issues de l'analyse complète des dépenses fiscales.

14. S'agissant de l'amélioration de l'efficience des dépenses publiques pour la création d'espace budgétaire, il est prévu pour l'année 2018, (i) l'examen par une équipe conjointe du Ministère de l'Economie et des Finances et du Ministère en charge de la Fonction publique de chaque cas suspect d'emploi fictif signalé par le recensement en vue de l'identification de ceux qui nécessitent une action administrative et (ii) l'harmonisation et la connexion du Système d'information pour la gestion des ressources humaines (SIGRH) avec l'application de gestion de la paie (SunKWE) pour s'assurer que seuls les salariés actifs du secteur public sont payés.

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Compétitivité agricole et viabilité financière du secteur de l'électricité

Les réformes prévues pour le FRGC 1

15. Au titre des domaines d'intervention prioritaires de son Programme d'actions, le Gouvernement a retenu l'amélioration de la compétitivité agricole et le renforcement de la viabilité financière du secteur de l'électricité.

16. S'agissant de l'amélioration de la compétitivité agricole, les principales actions portent sur (i) la création des agences de développement décentralisées adaptées aux besoins de chaque zone afin de promouvoir le développement de chaînes de valeurs agricoles dans des zones agro-écologiques identifiées, (ii) la création du Fonds National de Développement Agricole (FNDA) dont le mandat est de promouvoir les investissements privés dans le secteur et (iii) le renforcement du Laboratoire Central de Sécurité Sanitaire des Aliments (LCSSA) par le renouvellement de son accréditation conformément aux normes de l'Union européenne, l'étendue de la portée de son système de surveillance et la signature d'un protocole de partenariat entre le LCSSA et l'Agence Béninoise de Sécurité Sanitaire des Aliments (ABSSA) en vue d'une consolidation de la surveillance et du suivi de la sécurité sanitaire des aliments et l'amélioration de la qualité des produits agricoles.

17. Par rapport au renforcement de la viabilité financière du secteur de l'électricité, le Gouvernement a procédé à (i) l'apurement de tous les arriérés de l'Etat avec la SBEE et la SBEE a apuré au moins 50% de ses arriérés avec la CEB et (ii) le démarrage du remplacement des compteurs d'électricité conventionnels par des compteurs d'électricité prépayés dans l'administration publique, à l'exception des structures hautement sensibles, pour lesquelles le Gouvernement a accepté de payer par avance ses factures d'électricité en vue d'assurer le paiement à temps des factures d'électricité à la SBEE.

Les réformes attendues pour le FRGC 2 en 2018

18. Pour l'année 2018, dans le cadre de la poursuite des efforts d'amélioration de la compétitivité agricole, le Gouvernement entend renforcer le développement du secteur agricole par: (i) l'adoption et la mise en œuvre du Programme National de Recherche Agricole (PNRA) en recrutant les agents pour les sites de recherche-développement, et en lançant des expérimentations de recherche-développement dans les Pôles de Développement Agricole, (ii) la mise en place d'un cadre de promotion de l'irrigation adapté au développement des filières prioritaires pour les différents pôles de développement agricole et avec une allocation budgétaire adéquate et (iii) l'adoption de la politique nationale de qualité et le démarrage de la mise en œuvre du plan d'actions dans le secteur agricole.

19. Dans le domaine de l'amélioration de la viabilité financière de la SBEE, le Gouvernement accordera une priorité au titre de l'année 2018 à : (i) la poursuite de la réduction par la SBEE de ses arriérés avec la CEB conformément au plan établi par le Gouvernement (arriérés réduits de 500 millions de FCFA chaque mois), (ii) la mise au point d'une méthodologie transparente pour la

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détermination et la mise à jour annuelles des tarifs de l'électricité et (iii) la soumission au Parlement du projet du nouveau code de l'électricité en République du Bénin en vue de promouvoir l'investissement du privé dans le secteur de l'électricité.

20. Le Gouvernement s'engage à mettre en œuvre ces actions de réformes qui faciliteront l'atteinte des résultats de son Programme d'Actions et de la prochaine Stratégie nationale de développement ainsi que la réussite du programme associé au FRGC 1. Les actions décrites ci-dessus pourraient, au besoin, être complétées par de nouvelles réformes, en collaboration avec la Banque Mondiale, notamment pour le prochain programme d'appui budgétaire général.

3 - Dispositif de coordination, de suivi de la mise en œuvre des politiques de réformes

21. Le présent programme sera exécuté sous l'Autorité du Ministère de l'Economie et des Finances, à travers la Cellule de Suivi des Programmes Economiques et Financiers (CSPEF), en collaboration étroite avec les Ministères sectoriels et autres structures concernées par les domaines de concentration du programme. La Banque Mondiale effectuera également au besoin des revues du programme. Il sera maintenu un dialogue régulier avec la Banque Mondiale dans le cadre du suivi de la mise en œuvre des actions prévues.

22. Par la présente, le Gouvernement s'engage à prendre toutes les dispositions nécessaires pour mettre en œuvre les mesures et actions ci-dessus retenues et réitère sa demande auprès de la Banque Mondiale pour la mise en place du financement sollicité.

Rép. du Bénin - Ministère de l'Economie et des Finances - Le Ministre

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19 OCT 2017

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MINISTÈRE
DE L'ÉCONOMIE
ET DES FINANCES

RÉPUBLIQUE DU BÉNIN

LETTER OF DEVELOPMENT POLICY

October 2017

INTRODUCTION

1. This letter of development policy reviews the economic and social progress made in recent years, as well as the policies the Government intends to implement in order to stimulate economic growth and shore up the development in the context of a program of Development Policy Operations (called the Fiscal Reforms and Growth Development Policy Operation (FRG) for which the Government is requesting World Bank support.

2. The primary objectives of the program include: (i) strengthen the efficiency and impact of public expenditure in order to improve public service delivery to vulnerable populations and (ii) promote an enabling environment for sustained economic growth in order to drastically reduce poverty.

3. This letter includes the following sections: (i) economic context and recent trends; (ii) policy reforms; and (iii) coordination and monitoring system for implementation of reforms.

I – Economic context and recent trends

4. During the last six years, the Government's development policy has focused on the implementation of the Growth and Poverty Reduction Strategy (GPRS 2011-2015), which came to an end in 2015. It was the third strategy implemented by the Government, and included five pillars: (i) sustainable economic growth and transformation; (ii) infrastructure development; (iii) human capital development; (iv) good governance; and (v) balanced and sustainable development of the national territory.

5. During GSRP 2011-2015 implementation, the economy grew from 2011 to 2013 before slowing slightly in 2014 to a rate of 6.5% in 2014 versus 6.9% in 2013. In 2015, economic activity declined, with the growth rate dropping to 2.1% according to IMF estimates. In 2016, the economic growth rate rose to 4%, a sharp improvement from 2015 due to positive meteorological conditions, which led to outstanding harvests. However, policy measures implemented over the 2011-2016 period did not reduce poverty, with the rate of monetary poverty rising from 37% in 2011 to 40% in 2015.

6. In terms of the macroeconomic context, after the last economic and financial program agreed with the IMF came to a satisfactory conclusion in 2014, the Government of Benin signed in 2017 a new three-year program with the IMF for an extended credit facility (ECF), which was approved by the Board on April 7, 2017. In so doing, the Government took a commitment to implement a set of measures to promote macroeconomic and financial stability, and to raise living standards. Such measures include reforms designed to improve the efficiency of public expenditures and to mobilize additional revenue. An assessment of the program with the IMF completed on September 27, 2017 confirms that implementation was satisfactory overall and that all the program's monitoring indicators (quantitative and structural), which were decided upon with authorities in the framework of the agreement, have reached their targets (Press Release No. 17/375, September 27, 2017).

7. The Government aims to stimulate sustainable economic and social development in Benin through the action plan known as *Bénin Révélé* (Benin Revealed). More specifically, in 2017, economic policy will emphasize: a) investments to expand agriculture and the development of four priority crops (maize, rice, pineapple, and cashews); b) the processing industry and professionalization of handicrafts; c) development of physical capital and infrastructure (roads, energy, and ICT); d) high-quality human capital attractive to create wealth; and e) tourism, land planning, and land rejuvenation. By focusing on

these areas, the policy addresses cross-cutting concerns such as governance, climate change, or youth employment.

8. Benin has started drafting a National Development Plan (NDP) for 2017-2025, as well as a Growth Program for Sustainable Development (PC2D) for 2017-2021. The NDP falls under the umbrella of implementing the 2030 Agenda for the Sustainable Development Goals (SDGs) and the 2063 Agenda of the African Union, and it will be operationalized by the PC2D.

9. The Government is aware of the current context and intends to implement a series of reforms to facilitate the achievement of the targeted results.

II – Reform policies

10. The reforms to be carried out under FRG 1 for which the Government requests World Bank support pertain to: (i) strengthen fiscal management and (ii) agricultural competitiveness and the financial viability of the electricity sector.

Improving budget management

Reforms planned for FRG 1

11. One essential pillar of the Growth and Poverty Reduction Strategy (GPRS 2011-2015) was governance. The same holds true for the Government Action Plan known as *Bénin Révélé*, in which improving governance constitutes a priority cross-cutting concern. Actions implemented or in the pipeline for the FRG 1 include: (1) improving transparency and tax compliance in order to mobilize more domestic resources and (2) improving the efficiency of public expenditures in order to create fiscal space.

12. With regard to improving transparency and tax compliance in order to mobilize more domestic resources, the Government has identified these priorities: (i) improve tax compliance through the creation, by the Ministry of the Economy and Finance, of an electronic system for data sharing between the Directorate of Taxes (DGI) and the Directorate of Customs and Indirect Taxes (DGDDI); (ii) simplify tax payments and improve tax compliance by allowing the top 100 tax payers to process their tax returns through the banking system; (iii) create a tax policy unit in order to ensure tax policy is based on sound data and analysis.

13. With regard to improving the efficiency of public expenditures in order to create fiscal space, the Government has prioritized: (i) the identification of ghost workers through a payroll verification operation involving a census of all public sector workers, including civil servants, army officers, police officers, and pensioners; and (ii) improving the transparency by facilitating payments through a verified banking system for pension salaries over 50,000 CFA Francs; governmental scholarships; and periodic benefits of active civil servants

Reforms planned for FRG 2 in 2018

14. With regard to increasing transparency and tax compliance in order to improve the mobilization of domestic resources, the Government intends to implement the following reforms in 2018: (i) simplify tax payments by setting up an electronic system for reporting and paying value-added taxes and income

taxes; (ii) operationalize the tax policy unit by ensuring it has the necessary human and financial resources; (iii) increase revenue collection by implementing the recommendations from the comprehensive assessment of tax expenditures.

15. The Government plans to carry out the following actions in 2018 in order to improve the efficiency of public expenditure so as to create fiscal space: (i) joint review by the Ministry of Economy and Finance and the Ministry of Labor, Civil Service and Social Affairs of all suspected cases of ghost workers identified during the census operation in order to identify cases in need of administrative action; and (ii) harmonization and connection of the information system for human resources management (SIGRH) and the payroll management system (SunKWE) in order to ensure that only active public sector workers are paid.

Agricultural competitiveness and financial viability of the electricity sector

Reforms planned for the FRG 1

16. One priority of the Government's action plan is to improve agricultural competitiveness and strengthen the financial viability of the electricity sector.

17. Reforms for improving agricultural competitiveness include: (i) establishment of decentralized development agencies adapted to the needs of specific areas in order to promote agricultural value chain development in targeted agro-ecological zones; (ii) creation of a national fund for agricultural development (FNDA) tasked with promoting private investment in agriculture; and (iii) strengthen the food safety laboratory (LCSSA) by aligning it with E.U. standards, expanding its scope, and establishing a partnership protocol between the LCSSA and the Beninese food safety agency (ABSSA) with a view to improving the surveillance and monitoring of food security, as well as the quality of agricultural products.

18. The Government has undertaken these actions to strengthen the financial viability of the electricity sector: (i) the clearance of all arrears owed by the State to the SBEE with the SBEE clearing at least 50% of arrears owed to the CEB and (ii) initiating the process to replace conventional electricity meters with pre-paid electricity meters in the public administration, excepting highly sensitive structures for which the Government accepted to pay electricity bills in advance in order to guarantee the timely payment of electricity bills to the SBEE.

Reforms planned for FRG 2 in 2018

19. In 2018, as part of its efforts to improve agricultural competitiveness, the Government aims to strengthen the agricultural sector by: (i) adopting and implementing a national agricultural research plan (PNRA), recruiting staff for research-development sites, and by launching research and development experiments in targeted agricultural areas; (ii) establishing a framework for irrigation that meets the needs of priority crops in the targeted agricultural areas and ensuring it receives adequate funding; and (iii) adopting a national policy for quality of products and initiating the implementation of action plans in the agricultural sector.

20. With regard to improving the financial viability of the SBEE, the Government will prioritize the following in 2018: (i) continue efforts to reduce arrears owed by the SBEE to the CEB in line with a schedule defined by the Government (reduce arrears by CFAF 500 million each month); (ii) establish a transparent

methodology for setting electricity prices and revising them annually; and (iii) submit a new draft bill to Parliament regarding a new electricity code in Benin with a view to promote private investment in the electricity sector.

21. The Government is committed to implementing these reforms, which are designed to help achieve the outcomes set forth in the Action Plan and the next National Development Strategy. It is also committed to the success of the program for the FRG 1. For the next operation, the actions described above may be complemented by new reforms agreed in agreement with the World Bank.

3 – System for coordinating and monitoring the implementation of reforms

22. This plan will be implemented by the Economic and Financial Program Monitoring Unit (CSPEF) in the Ministry of the Economy and Finance, in close collaboration with line ministries and other offices and agencies active in the program's focal areas. The World Bank will also conduct program reviews on an as needed basis. Regular dialogue will take place with the World Bank with a view to monitor the implementation of the planned actions.

23. The Government hereby declares its commitment to take all the necessary steps to implement the measures and actions outlined above and reiterates its demand that the World Bank make the requested financing available.

Romuald WADAGNI
Minister of the Economy and Finance

ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects	Significant positive or negative poverty, social or distributional effects
PILLAR 1: STRENGTHENING FISCAL MANAGEMENT		
AREA A: STRENGTHEN DOMESTIC RESOURCE MOBILIZATION		
Prior Action 1: To increase compliance with tax procedures and reduce tax evasion, the MEF has piloted an electronic system to exchange information between the DGI and the DGDDI. **Prior Action 2:** To simplify tax collection and encourage compliance with tax procedures, the DGI has enabled the largest 100 taxpayers registered in its database to process their tax payments through a verified banking system. **Prior Action 3:** To strengthen evidence-based policy making, the MEF has established the Tax Policy Unit within its structure.	These prior actions designed to strengthen domestic resource mobilization are largely environmentally neutral.	Yes. These actions are expected to have a positive poverty and social impact by ensuring ongoing fiscal space for the delivery of essential public services and contribute to a macroeconomic environment conducive to economic growth and private sector employment creation.
AREA B: IMPROVE THE EFFICIENCY OF PUBLIC SPENDING TO CREATE FISCAL SPACE		
Prior Action 4: To enhance the accuracy of the Recipient's public payroll, the MEF has carried out a satisfactory staff census on all public sector employees, including civil servants, military, police officers, and pensioners. **Prior Action 5:** To combat fraud and better target beneficiaries, the MEF has facilitated payments through a verified banking system for: a) pensions salaries over 50,000 CFA Francs;	These prior actions designed to strengthen the efficiency of public spending are largely environmentally neutral.	These actions are expected to have a positive poverty and social impact by ensuring ongoing fiscal space and efficient management of public spending for the delivery of essential public services and contribute to a macroeconomic environment conducive to economic growth.

b) government scholarships; c) periodic benefits of active civil servants.		
PILLAR 2: INCREASING AGRICULTURAL PRODUCTIVITY AND COMPETITIVENESS AND STRENGTHENING POWER SECTOR'S FINANCIAL VIABILITY AND PRODUCTION CAPACITY		
AREA A: INCREASING AGRICULTURAL PRODUCTIVITY		
Prior Action 6: To promote the development of agricultural value chains within identified agro-ecological zones, the Recipient's Council of Ministers has established Territorial Agricultural Development Agencies relevant for the needs of each said agro-ecological zone. **Prior Action 7:** To enhance access to credit in the agricultural sector the Recipient's Council of Ministers has created the FNDA with a mandate to promote private investments in the agricultural sector. **Prior Action 8:** To improve quality of agricultural products, the Central Laboratory for Food Safety (LCSSA) was reinforced through: a) renewing its accreditation in accordance with the European Union standards; b) extending the scope of its monitoring mandate; c) executing a partnership protocol between with the Benin Agency for Food Safety (ABSSA).	In the agricultural sector, measures intended to diversify agriculture away from a reliance on cotton, could have a potentially positive environmental effect as agriculture becomes less mono-culture based and increasingly diversified.	These actions focused on increasing agricultural productivity and diversification are important in achieving the Government's stated poverty reduction goals. Diversifying production into more valuable crops, focusing more resources on export-oriented crops, and raising productivity should boost incomes among those involved in agriculture.
Prior Action 9: To strengthen the financial viability of the power sector, the Recipient has (a) cleared all public sector arrears accumulated against SBEE; and (b) ensured that SBEE	Strengthening the financial viability of the power sector (Prior Actions 9 and 10) will support increased access to electricity. This should have a positive environmental	These actions, should they meet their objective of encouraging increased access to electricity and more cost effective provision of electricity, should have a direct and positive impact on the poor.

has cleared 50 percent of its arrears accumulated against CEB in line with the SBEE and CEB's arrears clearance plan. **Prior Action 10:** To ensure timely payments of electricity bills to SBEE, the Recipient's Ministry of Energy, Water, and Mines has initiated the replacement of conventional electricity meters with prepaid electricity meters.	impact as households in Benin, particularly rural households, are highly dependent on biomass for their daily energy requirements. The reform programs supported under the energy sector would help in the reduction of greenhouse gases occasioned by the prevalent rural households burning of fuelwood and charcoal, this will help in reducing climate change effects, as there will reduction in greenhouse gases into the atmosphere. This will also significantly improve air quality by reducing energy-related emission that contributes to air pollution	

ANNEX 4 – Poverty and Social Impact Assessment of Electricity Pricing Reform In Benin

Introduction

1. The production and distribution of electricity in Benin and Togo is organized around three operators. Until recently, the CEB was in charge of production and supply and the SBEE was responsible of distribution. Despite increasing purchases from suppliers in neighboring countries (VRA and ECG in Ghana, CIE in Côte d'Ivoire and TCN in Nigeria), CEB's recurring supply shortfalls led in 2015 to the abolition of the single buyer monopoly of the CEB and to the decision to oblige the electricity to close their own energy deficit. Currently, the SBEE operates five regional thermal power stations.

2. A direct consequence of this development, in the case of Benin, is that the average revenue obtained by the SBEE from end users (CFAF 113 per kWh in 2015), does not cover the company's production costs and SBEE needs budgetary support from the Government. To address this issue, a new pricing policy as well as a periodic tariff adjustment program is necessary. Beyond the technical and commercial efforts to reduce losses and improve recoveries, the current use of expensive thermal power plants (between US$0.15 and US$0.36 per kWh) by the SEEB and the CEB and the growing burden of financial charges have increased the need to introduce tariff adjustment mechanisms to contain the subsidies to the electricity utility company.

3. Government and the World Bank are therefore contemplating, under this development policy lending operation, to support a new pricing policy/system, including regular price adjustments, and commercial reforms to increase recovery rates. The objective is for the SBEE to regain financial stability to ensure a proper maintenance of the facilities and the expansion of its operations throughout the territory.

4. The objective of this PSIA is to understand how the present system is favorable to poor households and what changes or accompanying measures could strengthen the sector's financial viability objective while mitigating the potentially negative effects on the poor.

Distributional impact of current tariffs

5. The coverage of the electricity network in Benin is still very limited and uneven. According to the latest census of 2014 the rate of connection to the electricity grid was only 33 percent. The energy matrix is characterized by a predominance of biomass (fuelwood, charcoal and vegetable waste, 59.4 percent) and petroleum products (38.4 percent). Electric power accounts for only 2.2 percent of the overall mix (INSEA, 2015). Access to electricity is also very uneven across regions. In 2015, only 6 percent of households were connected to the grid in rural areas, compared with 1 in 2 (55 percent) in urban areas. 86 percent of households in Cotonou and 44 percent in Oueme were connected (EMICoV, 2015). As in most countries in the region, poor and vulnerable households' access to the electricity grid in Benin is very limited: only 17.1 percent of poor and vulnerable households used electricity in 2015 (EMICoV 2015).

6. The latest SBEE tariff increase dates back to 2014 (Memorandum No. 554/14, 9 May 2014). Except for customers with prepaid meters, all subscribers pay fixed costs (500 CFAF per month per kilo Volt Ampere (kVA). Residential consumption is priced in blocks. The first and smallest block pays the "social tariff" (also named lifeline) of 78 CFAF Francs per kWh which is available to small consumers not exceeding 20 kWh of consumption per month. The other users pay the first 250 kWh at the price of 119 CFAF per kWh and the following ones at the price of 115 CFAF per kWh. Tariffs BT2 and BT3 are offered to

households that have higher electricity consumption (hairdressers, carpenters, bakers etc.) and require a greater amount of kVAs. For prepaid meters, the price is 111 CFAF per kWh. All these tariffs, except for the social block, are subject to a VAT rate of 18 percent.

7. The framework developed by the Sustainable Energy for All initiative (World Bank, 2016) considers electricity affordable if a household does not have to spend more than 5 percent of its total monthly income to purchase 30 kWh per month. In Benin, a basic consumption of 30 kWh costs between CFAF 3929 and CFAF 5039 (between US$6.5 and 8.4) depending on the household's meter (1 or 2 kVAs). This spending is largely above the threshold of 5 percent of poor households' budget. It represents between 7.4 percent and 8.5 percent of the average budget of a poor household (53,255 CFAF or about US$90 per month). Because of the social tariff, the corresponding costs of the lifeline of 20 kWh are CFAF 2150 with a meter of 1 kVA, CFAF 2740 with a meter of 2 kVAs and, CFAF 2620 if prepaid. They represent 4.0 percent, 5.1 percent and 4.9 percent, respectively, of the average budget of a poor household.

8. Since poor households use very little electricity (34.3 percent consume 20 kWh or less, 63.3 percent consume 40 kWh or less), fixed costs on kVA are an important portion of their bill (43 percent for a lifeline of 20 kWh and a meter of 2kVAs and 21 percent 3 percent for 40 kWh and a meter of 2kVAs). Fixed costs penalize small consumers with strong budget constraints.

9. The Millennium Challenge Account (MCA 2017) estimates SBEE unit cost of service for the coming years around 165 CFAF (27.5 USc/kWh). The average revenue of the SBEE from residential, administrative and commercial uses (BT and MT) was in 2015 of CFAF 113.43 (18.9 USc/kWh, see Table 1). Based on these estimates, SBEE's subsidies currently amount to about 52 CFAF per kWh. Not all households, however, receive the same amount of subsidy because consumption levels vary across customers and, the total cost per kWh per household differs because of fixed costs.

10. At the national level, the inequality of the distribution of subsidies is high. Poor households represent 40 percent of the population and benefit only from 17.5 percent of the total amount of subsidies. SBEE's subsidies are, thus, largely beneficial to wealthier households.

11. The objective of the social tariff to make electricity consumption affordable for poor consumers is not fully achieved. First, as mentioned earlier, fixed costs reduce poor household's ability to purchase electricity. Second, the threshold of 20 kWh per month is low. The social tariff benefits only 30 percent of SBEE's poor customers (34 percent use 20 kWh or less when prepaid users are added); an additional 21 percent of the SBEE's customers use between 20 and 30 kWh per month. At the same time, the social tariff benefits many wealthier small households in urban areas: for one poor household that benefits from the social tariff there are 3.7 wealthier households benefiting from it.

12. In the absence of targeting techniques developed at national level for social policies, it is impossible for the SBEE to differentiate poor households from wealthier households. Therefore, building a new tariff schedule for electricity prices that support the consumption of small consumers is key.

The INSEA asked several questions in the survey on electricity consumption regarding the prices households would be ready to pay per kWh for a quality service i.e. electricity available 24/7, without cut-offs or drops in voltage. Results of the survey indicate that a household in Benin would be willing to pay an average of 160 CFAF per kWh (INSEA, 2015).

Impact of tariffs increase

- **Increase of the price of kWh and kVA**

13. The first simulation considers the increase of all the tariffs per kWh and per kVA by 10 percent. The increase of all tariffs of kWh and kVA by 10 percent translates into an increase of all households' spending in CFAF by 10 percent assuming that the demand of electricity in kWh is inelastic. Such increase is not negligible for poor households as it represents additional expenditures equivalent on average to 4.5 percent of their food budget.

14. By regions, customers of the region of Oueme and Atlantique are the most adversely affected.

15. If electricity spending is capped to its current levels, the tariffs increase translates into a contraction of electricity consumption. The initial average budget necessary to buy 30 kWh (CFAF 4059) would buy only 27.3 kWh.

- **Increase of the price of kWh**

16. The second simulation considers only the increase of all the tariffs per kWh (tariffs per kVA remain unchanged). In contrast to the first scenario, the increase of all tariffs per kWh by 10 percent, while keeping the tariffs per kVA unchanged, affects households equally when electricity spending is capped to current levels. The tariff increase leads to a uniform contraction of electricity consumption by 10 percent. Only 27.6 kWh can be bought with the average budget initially needed to buy 30 kWh (CFAF 4,059). In the case of inelastic demand in kWh, the increase of all tariffs by 10 percent per kWh results in a relatively smaller increase in the total amount of electricity expenditure invoiced by the SBEE (7.4 percent in total) because the fixed part of the invoices is not affected.

- **Changes in tariff schedule favorable to poor households**

17. The third simulation explores the impact of a reform which respects the need to increase tariffs while reducing as much as possible the factors that constrain the consumption of electricity by poor households.

18. The changes envisaged are:

(a) The elimination of kVA billing for all households consuming 40 kWh or less with a meter of 1 or 2 kVAs. The limit of 40 kWh is chosen based on the results of the first simulation. The targeting of households with 1 or 2 kVA is meant to reduce the impact on SBEEs revenues.
(b) The alignment of social tariff and tariff of block 1 to the prepaid tariff. The social tariff, i.e. consumption of 20 kWh or less, remains exempted from TVA.
(c) An increase in tariffs per kWh by 10 percent.
(d) An increase in tariffs per kVA by 10 percent. This increase does not affect any customers with meter of 1 or 2 kVAs that use 40 kWh or less per month and do not pay in this scenario fixed costs.

19. These changes reduces significantly the cost per kWh of small customers up to 40 kWh.

20. In the case of an inflexible demand in kWh, this reform leads to some decrease in small customers spending, but the results show that SBEE's revenues substantially increase (9.2 percent in the simulation) because of the tariff alignment of the tariff of block 1 to the tariff with prepaid meter and the overall increase of these tariffs as well as the price per kVA by 10 percent. As a result, poor households represent only 8 percent of the source of the increase of SBEE's revenues.

21. The results of the third simulation demonstrate that it is possible to introduce a new tariff schedule that supports the general goal of getting SBEE’s average revenue per kWh closer to its service unit cost while minimizing negative impacts on poor and vulnerable households.