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IDA/R2018-0273/1

August 9, 2018

Closing Date: Thursday, August 30, 2018 at 6 p.m.

FROM: Acting Vice President and Corporate Secretary

Benin - Second Fiscal Reform and Growth Development Policy Financing

Program Document

Attached is the Program Document regarding proposed development policy credit and policy-based guarantee for a Second Fiscal Reform and Growth Development Policy Financing to Benin (IDA/R2018-0273), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
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Directors and Department Heads, Bank, IFC and MIGA
Secretary, IMF

Document of
The World Bank

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Report No: PGD34

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED

DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF EUR 12.9 MILLION
(US$15 MILLION EQUIVALENT)

AND A PROPOSED

POLICY BASED GUARANTEE

IN THE AMOUNT OF UP TO EUR 154.8 MILLION
(US$180 MILLION EQUIVALENT)

TO THE

REPUBLIC OF BENIN

FOR THE

SECOND FISCAL REFORM AND GROWTH DEVELOPMENT POLICY FINANCING

August 2, 2018

Macroeconomics, Trade And Investment Global Practice
Africa Region

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of June 30, 2018)
Currency Unit = CFA Franc
US$1.00 = CFAF 561.1
US$1.00 = EUR 0.86

ABBREVIATIONS 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)*
CPF	Country Partnership Framework
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
GNP	Gross National Product
GoB	Government of Benin
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance 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)*
LDP	Letter of Development Policy
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
MTDS	Medium-Term Debt Management Strategy
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
PTR	Pupil Teacher Ratio
RfP	Request for Proposals
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 Intégré de Gestion des Ressources Humaines)*
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
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

BENIN SECOND FISCAL REFORM AND GROWTH DEVELOPMENT POLICY FINANCING

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The Benin Second Fiscal Reform and Growth DPF Credit was prepared by an IDA team led by Andrea Coppola (GMTA2) and including: Michel Welmond (AFCF2); Boulel Toure, Ernest Sergenti, Samer Matta, Rachidi Kotchoni, Micky Ananth (GMTA2); Sebnem Erol Madan, Arnaud Braud, Vincent Launay (GTPFS); Hiroshi Tsubota (FABBK); Erick Herman Abiassi (GFA01); Holger Kray (GFA13); Yacinthe Gbaye (GED07); Ibrahim Magazi (GHN13); John Van Dyck (GSP05); Vonjy Rakotondramanana (GEE07); Saint Martin Mongan Agbeshie (GSP07); Franck Adoho (GPV01); Mathias Gogohounga (GGO07); Angelo Donou (GGO26); Faly Diallo (WFAFO); Africa Eshogba Olojoba (GEN07); Saba Gheshan (LEGAM); Neil Ashar, Sunjung Kim (LEGSG); Issa Thiam (WFALA); Abdoulaye Gadiere (GEN07); and Pepita H. Olympio (AFMBJ). Guidance was provided by Pierre Laporte (Country Director, AFCF2), Lars Christian Moller (Practice Manager, GMTA2), Jacques Morisset (Program Leader, AFCF2), Sunil Mathrani (Program Leader, AFCF2), Katrina Sharkey (Country Manager, AFMBJ); Doerte Doemeland (Practice Manager, GMTMD); Thomas Laursen (Lead Economist, GMTA2), Christine Richaud (Lead Economist, GMTA2) and Dorsati Madani (OPSCE). Maude Jean-Baptiste Valembrun and Theresa Bampoe (GMTA2) 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), Emilia Skrok (Senior Economist, GMFDR), and Jukka-Pekka Strand (Senior Infrastructure Finance Specialist, GTIFP) served as peer reviewers.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P166115	Yes	2nd in a series of 2

Proposed Development Objective(s)

The program development objectives of this FRG series are to: 1) strengthen fiscal management; 2) increase agricultural productivity and strengthen the financial viability of the power sector; and 3) improve equitable access to education and health services.

Organizations

Borrower:	THE REPUBLIC OF BENIN
Implementing Agency:	MINISTRY OF ECONOMY AND FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**465.00**

DETAILS

International Development Association (IDA)	15.00
IDA Credit	15.00
Commercial Financing	450.00
Commercial Financing Guaranteed	450.00
Guarantee Provided by World Bank	180.00

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target (2019)
PILLAR 1: STRENGTHENING FISCAL MANAGEMENT		
Result Indicator 1: Tax exemptions granted to cell phone companies.	Baseline (2016): FCFA 17.5 billion; Current (2017): FCFA 9.9 billion.	Less than FCFA 1 billion.
Result Indicator 2: Share of non-custom taxes paid through the banking system or the e-payment system.	Baseline (2016): 0 percent; Current (2017): 22 percent.	More than 65 percent.
Result Indicator 3: Share of civil servant salaries and benefits processed through the unified wage management system	Baseline (2017): 0 percent; Current (2017): 0 percent.	More than 90 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; Current (2017): 60 percent.	More than 80 percent.
PILLAR 2: INCREASE AGRICULTURAL PRODUCTIVITY AND STRENGTHEN THE POWER SECTOR'S FINANCIAL VIABILITY		
Result Indicator 5: Number of agro-ecological zone-specific experiments launched	Baseline (2017): 0; Current (2017): 0.	More than 15.
Result Indicator 6: Moving average (three years) of the quantity (tons) of processed cashew (C), processed pineapple (P), and processed rice (R):	C - Baseline (2016): 5,600; C – Current (2017): 7,600; P - Baseline (2016): 52,000; P – Current (2017): 81,000; R - Baseline (2016): 33,300; R – Current (2017): 52,000.	C - More than 8,500; P - More than 100,000; R - More than 69,500.
Result Indicator 7: Share of cashew (C) and pineapple (P) samples tested by LCSSA which meet international standards.	C - Baseline (2017): 88.6 percent; Current (2017): 88.6 percent; P - Baseline (2017): 88.1 percent; Current (2017): 88.1 percent.	C - More than 90 percent; P - More than 90 percent.

Result Indicator 8: SBEE's arrears with CEB.	Baseline (July 2017): CFAF 39.2 billion; Current (end-2017): CFAF 25.5 Billion.	Less than CFAF 10 billion.
Result Indicator 9: SBEE's revenue collection rate from all public-sector institutions.	Baseline (2016): 5 percent; Current (2017): 45 percent.	More than 50 percent.
Result Indicator 10: Share of revenue protected through the installation of smart energy meters for large consumers.	Baseline (2017): 0 percent; Current (2017): 0 percent.	More than 40 percent.
PILLAR 3: IMPROVE EQUITABLE ACCESS TO EDUCATION AND HEALTH SERVICES		
Result Indicator 11: Share of newly recruited teacher deployed in communes with pupils/teacher ratio higher than the national average.	Baseline (2016): 65 percent; Current (2017): N.A..	More than 90 percent.
Result Indicator 12: Share of newly recruited health personnel deployed in Priority Health Precincts.	Baseline (2017): 31 percent; Current (2017): 31 percent.	More than 70 percent.

IDA PROGRAM DOCUMENT
FOR A PROPOSED DEVELOPMENT POLICY CREDIT
AND A PROPOSED POLICY BASED GUARANTEE
TO THE REPUBLIC OF BENIN

1. INTRODUCTION AND COUNTRY CONTEXT

1.1 **The proposed operation is the second and final in a series of two programmatic Development Policy Financing operations to the Republic of Benin.** The proposed operation combines a Credit in the amount of EUR 12.9 million (equivalent to US$15 million) on standard IDA credit terms (38-year maturity including a 6-year grace period) and an IDA Policy Based Guarantee (PBG). The PBG, using an IDA country allocation of up to US$45 million, will cover an amount of up to EUR 154.8 million (equivalent to US$180 million), and help Benin raise an international commercial loan of up to EUR 387 million (equivalent to US$450 million) in one or several tranches. Thus, the expected leverage of the PBG represents up to 2.5 times for the international commercial loan and up to 10 times for the associated IDA allocation for this operation.

1.2 **The operation supports the continuation of reforms in fiscal management, agriculture and power sector, and includes a new pillar supporting human capital development.** The Government has an ambitious investment and reform program aimed at accelerating economic growth (*Programme d'Actions du Gouvernement 2016-2021*, GAP). As in the first operation in the series, the proposed operation supports the Government's reform efforts in: 1) strengthening fiscal management; and 2) increasing agricultural productivity and strengthening the power sector's financial viability. The proposed operation also includes a third pillar, which supports reforms to improve equitable access to education and health services. This is consistent with the Government's strategy to encourage greater productivity and inclusive growth.

1.3 **The introduction of a Policy Based Guarantee (PBG) as a part of the second operation aims to improve debt management.** The PBG is expected to partially guarantee a Euro-denominated commercial loan extended by international commercial banks at more favorable terms than existing CFA-denominated short-term debt. The PBG would support the Government's debt management strategy which aims at increasing the diversification of public borrowing and reducing refinancing risks by extending tenor. The Government has expressed its intention to use the proceeds of the commercial loan to prepay existing and more expensive short-term debt accumulated on the domestic and regional markets. This would reduce the Net Present Value of public debt and lead to reduced interest payments over time.

1.4 **The 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 investments. It is further strengthened by the Government commitment to meet the 2019 West African Economic and Monetary Union (WAEMU) fiscal deficit target; and the participation to the WAEMU and the prudent monetary policy at the union level. The Government macroeconomic and fiscal framework is supported by an International Monetary Fund (IMF) External Credit Facility (ECF) supported program. While public debt has risen in recent years, the results of the external debt sustainability analysis (DSA) show that Benin's debt dynamic is sustainable, with a moderate risk of debt distress.

1.5 **Poverty remains widespread, with a poverty rate of about 50 percent (with US$1.90 a day poverty line – 2011 purchasing power parity) in 2016**. With an average per capita gross domestic product (GDP) growth rate of 1.4 percent (2007-2016) driven primarily by the services sector, poverty reduction has been limited, highlighting the need to ensure a more broad-based and faster 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.

1.6 **In the context of rising public debt, this series supports stronger fiscal management (Pillar 1) through measures to increase revenue and use public resources efficiently**. In the run-up to the 2016 Presidential elections, uncontrolled increases in the wage bill and off-budget expenses led to significant increases in public debt (by almost 20 percent of GDP) and in the fiscal deficit (from 1.9 percent of GDP in 2014 to 8 percent in 2015, including grants). The fiscal deficit was reduced from 8 percent of GDP in 2015 to 5.9 percent in 2017 by containing public spending. The DPF series supports the authorities' efforts to strengthen fiscal management by improving revenue collection and by managing public expenditure more efficiently, particularly wages and transfers.

1.7 **Increasing agricultural productivity and value addition and strengthening the power sector's financial viability (Pillar 2) is a Government's priority for tackling poverty.** Addressing the challenges of the agriculture and power sectors is key to promote private sector development, which is the most efficient way to create jobs and reduce poverty. 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 can be improved, 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 and food safety and quality are tackled. In the power sector, the inconsistent supply of electricity is noted as a leading constraint to private sector growth and job creation, particularly in the light manufacturing and agricultural processing sectors. Strengthening the financial viability of the power sector is essential to increase electricity production capacity in a fiscally sustainable manner.

1.8 **A new third pillar will support reforms to ensure more equitable access to education and health services.** While access to education and health care has improved over the last decade, it varies considerably across income groups and locations. A key challenge is the disparity in the allocation of primary school teachers and key health care staff (doctors, nurses and midwives) across regions, with a relatively low number of them allocated in poor and marginal areas of the country.

1.9 **The proposed operation is fully anchored in the World Bank Group's Maximizing Financing for Development (MFD) approach.** Through the PBG, the proposed operation will use scarce IDA resources to mobilize private sector financing and strengthen the fiscal position of Benin. The reforms of both fiscal management and social services should also encourage private sector's participation in the economy as macroeconomic and fiscal stability, as well as human capital are key factors driving firms' investment and competitiveness. Moreover, the measures supported under the second pillar will contribute to attracting private investment in the agriculture and power sectors**.**

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

2.1 **Economic growth accelerated in 2017 thanks to continued recovery in the cotton sector and increased public investment.** GDP growth increased from 4 percent in 2016 to an estimated 5.6 percent (2.7 percent per capita) in 2017, gradually closing the negative output gap that opened in 2015.[1] By comparison, the Sub-Saharan Africa (SSA) region grew by 3.1 percent (0.8 percent per capita) in 2017. Growth was driven by strong activity in the agriculture sector stemming from higher cotton production and prices and a significant increase in public investment. Benin has also benefitted from the gradual recovery in Nigeria since the second quarter of 2017. Despite the pick-up in growth in 2017, it should be noted that economic growth in Benin has been historically largely driven by the accumulation of capital stock (particularly public investment) rather than increased productivity (which contributed negatively to overall growth; -0.9 percent on average between 2006-2016). A major factor behind this lackluster productivity is the prevalence of a large informal economy[2] (accounting for 60-65 percent of GDP and 80-90 percent of the total labor force).

2.2 **The already high external current account deficit widened in 2017 due to higher investment-related imports and a pick-up in energy-related imports due to higher oil prices.** The current account deficit averaged 7.7 percent of GDP in 2012-16, about 1.8 percentage points above the WAEMU's average. Fluctuations were largely explained by the variations in cotton and petroleum prices and the economic situation in Nigeria. In 2017, the deterioration of the current account deficit from 7.5 to 9.3 percent of GDP was caused by higher investment-related imports as a result of the Government's ambitious public investment program. Higher oil prices also contributed to the increase in the value of imports between 2016 and 2017. The continued recovery in cotton exports (driven by 10.8 percent and 12.6 percent increases in volume and prices, respectively) led to a recovery in exports. The deficit was financed by a combination of concessional financing and Foreign Direct Investment (FDI). FDI increased significantly from 1.4 percent of GDP in 2016 to 4.4 percent of GDP in 2017, driven by investments in transport, wholesale and retail trade, construction and manufacturing.

2.3 **Benin is a member of the Western Africa Economic and Monetary Union (WAEMU).** Its monetary policy is determined at the regional level by the Central Bank of West African States (BCEAO), which has adopted an inflationary-targeting regime with a long-term objective of 3 percent and a common currency (CFA Franc) that is pegged to the Euro. To help re-build international reserves, which dropped from five months of imports (moi) in 2015 to four moi in 2016 following the end of the commodity super-cycle, BCEAO tightened its monetary policy stance at the end of 2016. It increased the spread between its policy rate and the marginal credit by 200 bps and limited banks' access to its credit facility to twice their regulatory capital. In 2017, the decision to reduce the reserve requirements with the aim of enhancing liquidity in the markets partially offset the monetary tightening. In June 2018, BCEAO decided to maintain this policy by keeping its two main policy rates — the minimum rate for bids at liquidity auctions and the

[1] The output gap is an economic measure of the difference between the actual output of an economy and its potential output, such that if it is negative (positive) the economy is running below (above) its potential.
[2] Informal firms tend to be concentrated in low productivity sectors; to generate lower value added; and to pay lower wages to their employees.

standing lending facility— unchanged at 2.5 percent and 4.5 percent, respectively. While inflation turned positive and averaged 0.1 percent in 2017, compared to -0.8 percent in 2016, due to higher oil and food prices, it remained significantly below BCEAO's target and in line with the inflation rate reported in the Eurozone.

Table 2.1: Key Macroeconomic Indicators, 2014-2021

	2014	2015	2016	2017	2018	2019	2020	2021
		Act.		Est.		Proj.		
Real economy	(Annual percentage change)							
Real GDP	6.4	2.1	4.0	5.6	6.0	6.1	6.3	6.5
Per Capita GDP (in US$, Atlas Method)	930	870	820	810	880	970	1060	1140
Contributions:								
Consumption	2.2	0.5	2.2	2.8	3.6	4.3	4.4	4.0
Investment	4.9	-0.2	1.4	7.0	3.0	1.3	3.2	3.4
Private	5.4	-2.8	3.3	2.4	3.2	3.5	3.3	3.3
Public	-0.5	2.6	-1.9	4.6	-0.1	-2.2	0.0	0.1
Net exports	-0.6	1.8	0.4	-4.2	-0.6	0.6	-1.4	-0.9
Imports	7.3	0.1	1.3	8.5	5.6	4.7	5.8	6.0
Exports	6.6	2.0	1.7	4.2	5.0	5.3	4.5	5.1
Unemployment rate (ILO definition)	1.0	1.0	1.1	1.0	…	…	…	…
GDP deflator	-0.1	-0.1	-0.3	0.6	2.1	2.4	3.0	3.0
CPI (eop)	-1.1	0.3	-0.8	0.1	1.8	2.5	3.0	3.0
Fiscal Accounts	(Percent of GDP, unless otherwise indicated)							
Expenditures	19.0	25.4	21.4	24.6	23.6	21.2	20.4	19.7
Revenues	17.2	17.4	15.4	18.7	18.9	19.1	19.7	19.4
General Government Balance	-1.9	-8.0	-6.0	-5.9	-4.7	-2.1	-0.7	-0.3
External PPG debt (eop)	19.8	21.3	22.5	22.1	23.3	24.7	25.0	24.6
Total public sector debt	30.1	42.5	49.5	54.4	55.0	52.5	48.0	43.9
Selected Monetary Accounts	(Annual percentage change, unless otherwise indicated)							
Base Money	16.7	-10.4	0.3	7.8	…	…	…	…
Credit to non-government	-1.0	-24.2	8.6	0.5	…	…	…	…
Interest (key policy interest rate, average)	2.5	2.5	2.5	2.5	…	…	…	…
Balance of Payments	(Percent of GDP, unless otherwise indicated)							
Current Account Balance	-8.6	-8.1	-7.5	-9.3	-8.8	-7.3	-6.9	-6.3
Trade balance	-11.2	-11.2	-11.4	-12.7	-11.5	-9.8	-9.5	-8.8
Imports	-43.4	-39.6	-42.4	-46.3	-47.5	-48.7	-50.2	-50.4
Exports	32.2	28.3	31.0	33.6	36.1	38.9	40.7	41.6
Foreign Direct Investment	4.0	1.4	1.4	4.4	5.8	7.6	7.3	7.3
Gross Reserves (in months of imports)[1]	4.8	5.0	4.0	4.2	…	…	…	…
External Debt	19.8	21.3	22.5	22.1	23.3	24.7	25.0	24.6
Terms of trade (-=deterioration)	1.0	0.4	2.8	0.0	-0.4	-0.4	2.0	1.3
Exchange Rate (average)	494.4	591.7	593.1	581.0	…	…	…	…
Other memo items								
e.g., GDP nominal (million US$)	9,725	8,286	8,571	9,299	11,045	12,140	13,298	14,640

Source: Government data, IMF Article IV, and WB calculations (May 2018). [1]Regional data (WAEMU).

2.4 The performance and vulnerability of the financial sector limit credit expansion to the private sector. The banking sector is overburdened with non-performing loans (NPLs). Gross NPLs decreased from

22.2 percent in 2015 to 21.1 percent in 2016 but their level remains high. This large share of NPLs has affected the ability of commercial banks to finance firms. Expansion of credit allocated to the private sector is weak and further decelerated during the last months from 2.4 percent (yoy) in September 2016 to only 1.1 percent (yoy) by September 2017. The capital adequacy ratio increased from 9.5 percent in 2016 to 11.9 percent by September 2017, exceeding the 11.4 percent WAEMU average recorded by June-2017.[3] The concentration of commercial loans in the five largest borrowers is another weakness of the financial sector, since it accounted for 113.1 percent of commercial banks' capital by end-2015[4]. Aware of these weaknesses, the authorities are collaborating with the IMF on how to improve the supervision and regulations of the financial system, including microfinance institutions. In January 2018, the authorities launched a five-year plan to transition to Basel II/III standards in order to improve the regulation, the supervision, and the risk management within the country's banking sector. Moreover, in coordination with the WAEMU banking commission, they are also preparing a new regulatory framework for Microfinance institutions (MFIs) aimed at strengthening supervision. It should also be noted that the Beninese economy is under monetized since (i) domestic credit provided by the financial sector accounted for 24 percent of GDP in 2016 (compared to 59.7 percent in SSA); (ii) only 38 percent of adults had an account at a financial institution in 2017, compared to a 43 percent average in SSA; and (iii) the informal economy is large. Therefore, adverse shocks to the financial system would have limited effects on other sectors of the economy.

2.5 The primary deficit narrowed by about one percentage point (pp) of GDP in 2017 but the overall fiscal position improved only slightly because of the higher interest burden. The primary deficit reached 3.9 percent of GDP in 2017 (from 4.8 percent of GDP in 2016). Higher revenues and reduced primary recurrent spending offset higher capital and interest expenditures. The overall fiscal deficit declined from to 6 percent of GDP in 2016 to 5.9 percent of GDP in 2017. More than 20 percent of the increase in government expenditures in 2017 was due to the increase of interest payments (0.7 percent of GDP) associated with the higher stock of costly domestic debt.

2.6 Measures to boost domestic revenues as well as a small increase in foreign grants led to a significant increase in total revenues. Domestic revenues rose from 14.7 percent of GDP in 2016 to 17.6 percent in 2017, the highest level recorded since 2013. About three quarter of this increase is explained by the surge in non-tax revenues (up by 2.2 percent of GDP), which in turn was the result of the first tranche payment of a one-off fine (1.2 percent of GDP) imposed on a major mobile operator. Concurrently, the modernization of tax and customs administration, the collection of accumulated tax arrears and the Government's decision not to renew tax exemptions for mobile operators helped boost tax revenues from 12.6 percent of GDP in 2016 to 13.2 percent in 2017. This ratio, however, remains significantly lower than the average reported in other WAEMU countries and the optimal tax revenue ratio that could be attained by Benin (19.1 percent) given the underlying macroeconomic and institutional conditions.[5] Finally, foreign grants increased by 0.4 percent of GDP in 2017.

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[3] IMF, April (2018); "West African Economic and Monetary Union (WAEMU): Common Policies for Member Countries", Washington D.C. Link: *http://www.imf.org/en/publications/cr/issues/2018/04/25/west-african-economic-and-monetary-union-waemu-common-policies-for-member-countries-press-45815*.

[4] Latest available data.

[5] The optimal tax ratio, also referred as the "tax frontier", is defined by the IMF (2018, p. 40) as "the highest level of tax revenue (usually measured in percent of GDP) that a country can be expected to achieve given certain underlying macroeconomic and institutional conditions. Source: IMF (2018), "Regional Economic Outlook: Sub-Saharan Africa April 2018", Chapter 2, Washington D.C.

Table 2.2: Key Fiscal Indicators, 2014-2021 (percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
		Act.		Est.		Proj.		
Overall balance (commitment basis, incl. grants)	-1.9	-8.0	-6.0	-5.9	-4.7	-2.1	-0.7	-0.3
Primary balance	-1.5	-7.2	-4.8	-3.9	-2.4	0.3	1.6	1.7
Total revenue and grants	17.2	17.4	15.4	18.7	18.9	19.1	19.7	19.4
Tax revenue	14.6	14.5	12.6	13.2	14.6	14.9	15.7	16.0
Direct and indirect taxes	7.1	7.5	6.9	7.3	8.0	8.4	8.8	9.0
Tax on international trade	7.5	7.1	5.7	5.8	6.6	6.7	6.9	7.0
Nontax revenue	1.7	2.2	2.1	4.4	2.8	2.4	2.3	2.4
Grants	0.9	0.6	0.7	1.1	1.4	1.7	1.6	0.9
Total expenditure and net lending	19.0	25.4	21.4	24.6	23.6	21.2	20.4	19.7
Current expenditures	14.2	17.3	15.4	15.3	15.0	14.9	14.5	14.2
Wage bill	6.6	7.0	7.0	6.2	6.5	6.4	6.4	6.3
Expenditure on goods and services	2.2	2.9	2.0	2.1	1.8	1.8	1.7	1.7
Interest	0.4	0.7	1.2	1.9	2.3	2.5	2.3	2.0
Current transfers	3.7	5.1	3.6	3.1	2.9	2.7	2.7	2.7
Pensions and scholarships	1.4	1.5	1.5	1.9	1.6	1.6	1.5	1.5
Capital expenditure and net lending	4.8	8.1	6.0	9.2	8.6	6.3	5.9	5.5
Capital expenditure	5.2	7.7	5.9	9.1	8.6	6.3	5.9	5.5
Net lending (- = reimbursment)	-0.3	0.4	0.1	0.1	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl grants)	-2.8	-8.6	-6.7	-6.9	-6.1	-3.8	-2.3	-1.3
Financing	2.8	8.6	6.7	6.9	6.1	3.5	1.7	1.1
External financing	2.0	2.7	2.3	3.6	4.1	4.5	3.9	2.9
Domestic financing	0.8	5.9	4.4	3.3	2.0	-1.0	-2.2	-1.8

Source: Government data, IMF calculations, and WB calculations (May 2018).

2.7 Public investment increased while recurrent spending was contained. Capital expenditures surged from 6 percent of GDP in 2016 to 9.2 percent in 2017, driven by the Government Action Program (GAP) aimed at improving Benin's infrastructure. As part of this program, the Government has focused on the road sector, by rehabilitating the Dassa-Savalou-Djougou road (estimated cost of US$293 million) as well as paving the Djougou-Péhunco-Kérou road (estimated cost of US$536 million), as these projects will help boost agricultural production by improving the rural-urban connections and facilitate access to basic services. The increase in capital spending was partly offset by a 0.7 percent of GDP drop in primary current expenditures, resulting from lower current transfers and wage payments. The Government acted to reduce the wage bill (down by 0.8 percent of GDP) by implementing three measures: (i) reducing the benefits allocated to teachers by CFAF 8.5 billion (0.2 percent of GDP) substituting the fixed allocation previously granted to teachers by a 1.3 percent of GDP bonus scheme; (ii) retiring older public servants, which saved CFA 13 billion (0.2 percent of GDP); and (iii) improving the management of human resources across all public sector entities, thanks to the harmonization between the HR systems of the Ministry of Economy and Finance (MEF) and the Ministry of Labor and Public Service (MTFPAS).

2.8 To support the implementation of the GAP, the authorities have started to address existing weaknesses in the management of their expenditures, especially the efficiency of public investment. In January 2018, the joint WB/IMF Public Investment Management Assessment (PIMA) highlighted that the efficiency of public investment in Benin is relatively low, compared to its regional peers in WAEMU and SSA. This low performance is mainly the result of poor selection of projects as well as weak ex-ante and ex-post evaluation management procedures. The authorities have started to implement reforms, including the adoption of a new Public Private Partnership (PPP) law in 2017. They are in the process of drafting regulatory texts aimed at improving the planning, selection, monitoring and evaluation of investment projects. They are also envisioning to upgrade their information systems (SIGFP and DJRADO).[6]

2.9 **During 2017, the fiscal deficit was mostly financed by short-term domestic borrowing and the stock of public debt rose from 49.5 percent of GDP in 2016 to 55.5 percent of GDP in 2017**. The higher stock of costly domestic debt led to a significant increase in interest payments (from 1.2 percent of GDP in 2016 to 2 percent of GDP in 2017). The debt-to-GDP ratio is lower than the 70 percent of GDP WAEMU convergence criterion. However, most of the public debt is domestic (about 60 percent) with a relatively short maturity and high interest rates. Because a large fraction of the domestic debt (about EUR 280 million) is constituted by commercial bank loans with an average maturity of less than three years and an average interest rate of 7.2 percent, there is an opportunity for the Government to restructure its debt in favor of longer, cheaper external debt. The proposed PBG will help the Government to achieve a better balance between external and domestic debt, to reduce refinancing risks by extending tenor and to reduce its debt service payments over time.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.10 **The medium-term outlook is favorable as growth is projected to average 6.2 percent over the 2018-2021 period.** Owing to this robust performance, per capita GDP (as per the Atlas method) should increase steadily over the projection period and exceed the US$ 1,000 threshold by 2020 (Table 2.1). From the supply side, growth would be driven by the agriculture sector as the undergoing infrastructure projects aimed at improving connectivity and the supply of inputs are expected to boost cotton production and increase the diversification of the agricultural sector. The industrial and services sectors are also projected to strengthen, especially after the Government's decision in January 2018 to appoint a Belgian company – Port of Antwerp International (PAI) – to upgrade and improve the competitiveness of the port of Cotonou. The port is a pillar of Benin's economy and the main seaport for Burkina Faso, Niger and Mali. The good performance of the agricultural sector is assumed to be supported by favorable commodity (cotton) prices, and the expansion of the service sector by the gradual recovery of Nigeria. It has been estimated that a 1 percentage point increase in Nigeria's GDP growth rate is associated with a 0.3 percentage points rise in Benin's growth rate (IMF, 2017).[7] The developments on the supply side – such as rising agricultural productivity and better infrastructures[8] – can support a larger potential output, thereby allowing space for a growth acceleration that does not cause overheating of the economy.

2.11 **From the demand side, private investment is expected to be one of the main drivers of growth in the outlook period as public investment should revert to its pre-2017 level.** Building on several reforms implemented in 2017, the country is expected to improve its ranking in the Doing Business Indicator (from 154 out of 190 countries in 2017 to 151 in 2018) and in the Global Competitiveness Indicator (from 124 out of 138 countries in 2016-2017 to 120 out of 137 countries in 2017-2018). These reforms include (i) streamlining procedures to obtain construction permits by publishing regulations related to construction online (free of charge); (ii) strengthening the credit reporting system by

[6] SIGFP: Système Intégré de Gestion des Finances Publiques; DJRADO: logiciel de préparation et de suivi du budget d'investissement de la DGPSIP.
[7] https://www.imf.org/en/Publications/CR/Issues/2017/04/26/Benin-Request-for-a-Three-year-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-44868
[8] Measures supported under Pillar 2 of this DPF series will help the country to achieve this supply-side boost.

introducing regulations that govern the licensing and functioning of credit bureaus in WAEMU; and (iii) improving the land administration system by publishing documentary requirements and fee schedule required for property transactions. To further support private investment, the Government is planning to promote access to finance for firms[9] by (i) easing their collateral requirement for loans designing an electronic system to record property titles and (ii) reinforcing financing instruments available to SMEs and farms.[10] All these improvements in the business environment are expected to encourage both domestic and foreign private investments[11], which are projected to grow by 11.3 percent annually over the period 2018-2021. These investments should occur in the sector of agriculture/agri-business in which Benin has a comparative advantage (particularly cotton, pineapple and cashew nuts) and in the telecom industry pushed by increasing domestic demand.

2.12 In addition, growth will be stimulated by private consumption and higher net exports. Private consumption should increase as the result of higher revenue from the cotton sector and from higher (informal) trade with Nigeria, which are two main sources of income for a large fraction of households in Benin. Finally, the contribution of net exports to GDP growth should increase as the combination of higher exports and lower imports growth.

2.13 The current account is projected to narrow over the forecast period, driven by higher exports. The external current account deficit is expected to decline by 0.5 percent of GDP in 2018 and gradually converge to 6.3 percent of GDP by 2021. Despite higher imports linked to a stronger domestic demand and recovering oil prices, the improvement in the external balance is expected to be driven by higher agricultural (particularly cotton) exports resulting from improved competitiveness and better infrastructure. The current account deficit is expected to be financed by: (i) FDI through investments in planned PPP projects such as the development of Port of Cotonou; (ii) concessional financing; and (iii) possibly through external public borrowing as the Government is in the process of obtaining a credit rating from international agencies.

2.14 Despite upward pressures stemming from a strengthened economy, inflation is expected to remain close to the regional target of 3 percent thanks to the prudent monetary policy followed by the BCEAO. Inflation is projected to increase gradually over the projection period as private domestic demand grows, oil prices increase and the Naira appreciates given the economic recovery in Nigeria.

2.15 Under the IMF ECF-supported program, the authorities have renewed their commitment to reducing fiscal imbalances over the period 2018-21. The fiscal deficit (including grants) is projected to decline from 5.9 percent of GDP in 2017 to 2.1 percent of GDP in 2019 (below the 3 percent of GDP WAEMU target). Similarly, the primary balance is expected to keep improving until turning positive in 2019 and reaching 1.7 percent of GDP in 2021.

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[9] Based on the 2016 World Bank Enterprise Survey, 32.5 percent of firms identified access to finance as the biggest obstacle to their day-to-day business.
[10] For example, through the operationalization of the National Fund for Agriculture Development (FNDA) which is supported under this series.
[11] Corcoran and Gillanders (2014) and Vogiatzoglou (2016) found that a higher rank on the Doing Business Indicator attracts FDI.

Table 2.3: Balance of Payments financing requirements and Sources: 2014-2021 (in US$ millions)

	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.			
Financing requirements (US$)	**-892.2**	**-733.0**	**-694.5**	**-951.4**	**-1046.7**	**-951.0**	**-986.7**	**-989.4**
Current account deficit	-835.9	-674.6	-643.0	-863.1	-975.3	-881.5	-919.5	-922.3
Short term debt amortizations	…	…	…	…	…	…	…	…
Long term debt amortization (excl. IMF)	-56.3	-58.4	-51.5	-88.3	-71.5	-69.5	-67.2	-67.1
Other short term capital outflows	…	…	…	…	…	…	…	…
Financing Sources (US$)	**892.2**	**733.0**	**694.5**	**951.4**	**1046.7**	**951.0**	**986.7**	**989.4**
FDI and portfolio investments (net)[/1]	826.1	526.4	-158.1	755.9	810.6	950.5	1039.1	1188.5
Capital grants	17.4	0.0	18.0	27.4	32.0	74.5	62.2	62.1
Short term debt disbursements	…	…	…	…	…	…	…	…
Long term debt disbursements (excl. IMF)	132.6	310.5	284.2	443.1	571.0	609.7	553.8	595.7
Change in reserves	-94.0	-94.1	561.2	-339.3	-390.9	-709.8	-668.5	-844.0
IMF credit (net)	10.2	-9.9	-10.8	64.3	24.0	26.0	0.0	-12.8

Source: Government data, IMF calculations, and WB calculations (May 2018).
[1] Includes Errors and omissions.

2.16 **This expected improvement in the fiscal balance would be driven by higher tax revenues resulting from a series of reforms to boost revenue mobilization.** Tax revenues are projected to increase gradually from 13.2 percent of GDP in 2017 to 16 percent of GDP in 2021 because of a series of tax policy and administration reforms. The main objective of these reforms, some of which are supported by this operation, is to reduce tax expenditures and modernize tax administration. The Government's decision not to renew tax exemptions, which have been granted to cell phone companies since 2008, is expected to reduce tax expenditures by about 0.35 percent of GDP. The development of a tax reference system (planned in 2018 as part of an IMF Technical Assistance) will help local authorities establish an action plan aimed at estimating and eliminating other inefficient tax exemptions[12]. Moreover, simplifying tax collection and payment through the banking and e-payment systems would help reduce informality and therefore increase the percentage of taxes collected. The Government is also promoting synergies between custom and tax administration; appointing and training personnel as investigators to combat fraud; and stepping up transit oversight. Finally, the 2018 Budget Law introduced a *taxe professionelle synthetique* (TPS) for all firms with a turnover lower than CFAF 50 million.

2.17 **Public spending is expected to decrease as public investments will revert to their pre-2017 levels.** The Government intends to further reduce expenses on goods and services and current transfers over the outlook period, also with the help of the measures supported by the first operation of this DPF series. This would be complemented by a gradual reduction in capital expenditures from 9.2 percent of GDP in 2017 back to the 2012-2016 average of about 6.3 percent. The reversion of public investment to its pre-2017 levels is not expected to exert a significant contractionary impact in the economy, because it will be accompanied by increased efficiency driven by ongoing reforms to improve the selection and

[12] Based on 2016 data, the largest sources of tax expenditures include: public tenders financed externally (0.5 percent of GDP); exemptions to diplomatic missions and NGOs (0.45 percent of GDP); exemptions to cell phone companies (0.35 percent of GDP); and exemptions to agricultural inputs (0.25 percent of GDP).

implementation of projects. Moreover, the Government passed reforms improving the business climate and plans to rely more heavily on the private sector to fund the GAP, with more investment projects to be pursued on a public-private partnership (PPP) basis.

2.18 Benin is assessed at moderate risk of external debt distress based on the results of the latest DSA carried out in December 2017. In the DSA baseline scenario, all debt indicators remain below their relevant policy-dependent thresholds. One indicator, the PV of external debt-to-exports ratio, exceeds its threshold in the case of an extreme shock to exports. Benin's WAEMU membership ensures its ability to meet its debt service obligations in case of such a temporary shock. With a lower fiscal deficit over the outlook period, Benin' debt structure is expected to improve as the present value (PV) of debt-to-GDP ratio is projected to slightly decrease from 48.4 percent in 2017 to 48.3 percent in 2018 and then decline steadily. Overall, this ratio remains consistently below the indicative threshold of 56 percent (a level considered linked to increased probability of debt distress for countries with moderate capacity like Benin).

2.19 While the risk of debt distress remains moderate, Benin has accumulated a high level of domestic debt and needs to rebalance its sources of funding. Domestic debt accounts for approximately 70 percent of Benin's total public debt and about 32 percent of GDP. Most of this domestic debt is of short maturity and with relatively high interest rates, raising the Government's rollover risk and debt-service.[13] Total debt service (including principal repayments) to revenue ratio went from 19 percent in 2016 to 40 percent in 2017. In this context, Benin's debt management strategy (see Box 1) aims at diversifying public funding (reducing reliance on domestic/regional financing). The proposed operation would support the country's debt strategy by helping Benin access international commercial lenders at longer tenors and affordable costs. Using the proceeds of the PBG-supported borrowing to refinance existing debt would further support the country's debt management strategy and help to reduce debt service costs and strengthen debt sustainability. To help keep the growth of debt under control, the IMF ECF-supported program includes performance criteria setting up ceilings on new external and domestic debt. The ceiling on new external debt is currently at CFAF 468.9 billion (equivalent to about US$840 million), of which CFAF 24.3 billion (equivalent to about US$45 million) have been used based on the latest IMF data available (March 31st, 2018). The ceiling on new domestic debt is CFAF 118.8 billion (at end-December 2018), of which CFAF 43 billion have been used based on the latest IMF data available.

[13] Details on the composition of Benin's debt are presented in Tables A5.2 and A5.3 (see Annex 5).

Box 1: Benin's Debt Management Strategy

The debt management strategy of Benin in 2018 is aimed at "meeting the financing objectives of the country at the lowest cost while minimizing the exposure to market risks". This strategy is consistent with Article 3 of Decree No. 2015-581 of November 18, 2015 on the public debt policy and management in Benin. This article stipulates that (i) the country must meet its financing needs at the lowest cost and in a medium and long-term perspective; (ii) the public debt portfolio risk must be kept at prudent levels; (iii) debt sustainability indicators must remain below adequate thresholds; and (iv) the development of domestic financial markets must be supported.

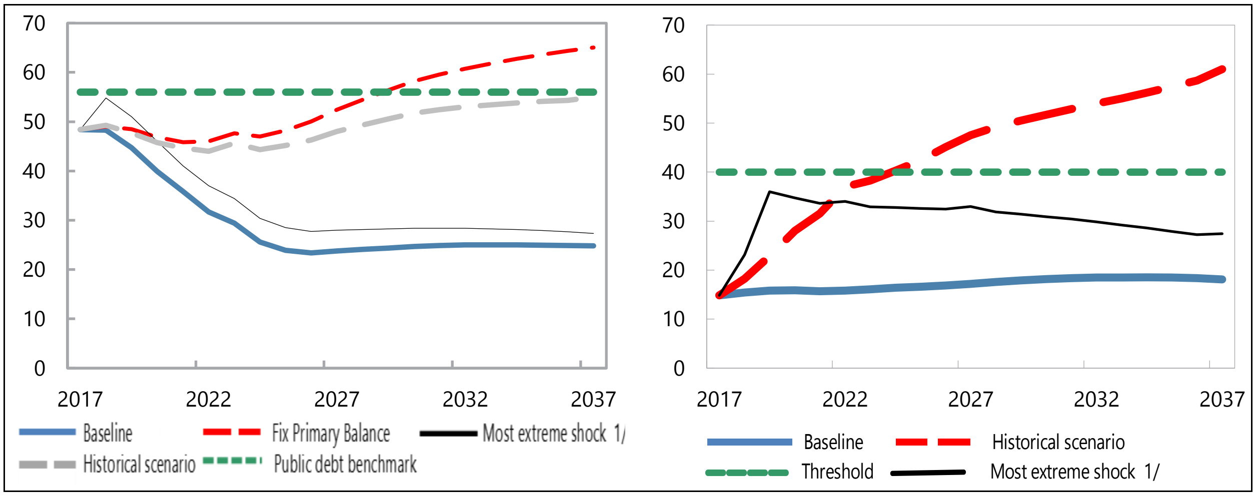
The share of domestic debt increased over the last years. During the last years, the Government relied on the regional financial market to finance public investment projects and the share of domestic debt increased significantly over the last years until reaching about 61 percent of total debt in 2017. At the end of 2017, domestic debt was dominated by government bonds, which accounted for 74.7 percent of its total amount, followed by loans from bank (15.7 percent) and from BOAD (9.6 percent). The external debt essentially consists of multilateral debt (80.5 percent), mainly contracted on concessional terms. The main external creditors are the World Bank (37.7 percent), the African Development Fund (19.7 percent) and China (11.3 percent). The average maturity of domestic debt (3.6 years) is much shorter than the average maturity of external debt (13.7 years). Therefore, the public debt portfolio is exposed to refinancing risk associated with domestic debt, which represents the bulk of short term debt.

In 2018, given the high share of domestic debt over total debt and the declining trend in the volume of concessional resources from traditional creditors, the Government aims at diversifying its funding sources. With the assistance of international financial advisory companies, the Government is reaching out to commercial banks with the objective of refinancing domestic debt.

The Government also aims at mitigating refinancing risk. Treasury bills with one-year maturity or less will be kept below 2 percent of total debt and the portion of debt maturing in one year will be maintained in the range of 15-17 percent. The issuance of government securities is expected to drop by 41.3%, decreasing from XOF 716.6 billion in 2017 to XOF 420.8 billion in 2018. Benin also plans to extend the maturity of government bonds, notably by issuing 10-year maturity bonds.

2.20 **Since 2010, Benin has made considerable progress in managing its debt, but several weaknesses remain to be addressed**. The latest debt management performance assessment (DeMPA) conducted by the World Bank in May 2017 reveals that Benin has significantly improved its debt management procedures since the last assessment conducted in 2010. The legal framework has been strengthened as Benin annually adopts a debt strategy that sets out borrowing objectives and a debt ceiling based on a debt sustainability analysis. The national debt committee (*Comité National d'Endettement* or CNE) is responsible for preparing the country's debt policy and producing the yearly national DSA which is now included in the budget law documentation sent to Parliament. In addition, the management of the debt cycle has improved as the Government's borrowings choices are now guided by a formal Medium-Term Debt Management Strategy (MTDS) that is based on an analysis of risks. Moreover, the coordination between the debt strategy and the overall fiscal policy has improved as forecasts about the debt service are produced under different scenarios and on a timely basis. However, as pointed out by the 2017 assessment, debt management in Benin can be further improved by strengthening cash flow forecasting and cash balance management capabilities. Further attention should also be given to developing better debt recording and operational risks management systems; and strengthening local capacity. The Government asked for technical assistance from the World Bank, which will be initiated in September 2018.

Figure 2: Indicators of Public Debt (left chart) and Publicly Guaranteed External Debt (right chart) under Alternative Scenarios, 2017–37 (Percent of GDP, %)



Source: Government data, IMF calculations, and WB calculations.

2.21 The macroeconomic outlook is subject to downside risks related to the ability to maintain the fiscal consolidation momentum and the challenges associated with the political cycle. A major risk to the envisaged fiscal adjustment program is the Government's ability to avoid election-related spending in the upcoming legislative and presidential elections planned for 2019 and 2021, in contrast to what happened during the last national elections in 2016. The credibility of the Government to reduce its overall fiscal deficit could also be undermined if structural reforms to broaden the tax base are not successfully carried out. Likewise, growth could be weaker if the improvement in the efficiency of public investment and the PPP ambitious program fail to materialize as expected. Following the large protests that occurred in October 2017, a deterioration in the political environment cannot be fully discarded especially as the upcoming parliamentary elections are approaching (March 2019). Socio-political incidents could raise uncertainty and negatively affect the plan to rationalize current expenditures, thus increasing the fiscal deficit.

2.22 To the extent that a key driver of economic growth is expected to be private sector development, the Government will have to continue implementing reforms to improve the business environment. A deterioration of the fiscal accounts would raise concerns among creditors over the country's fiscal and debt sustainability, thus discouraging private investors. In addition, growing vulnerabilities in the financial sector could affect the growth outlook if not monitored and supervised closely. The continuous increase in the percentage of non-performing loans could expose commercial banks to liquidity risks and increase their risk-aversion, which in turn raises the financing costs associated to credit to the private sector. Moreover, the high loan concentration exposes the banking sector to liquidity and financial risks.

2.23 External factors could also weigh down on the positive outlook. Adverse developments in Nigeria would negatively impact exports, thus lowering economic growth and widening the trade deficit. Similarly, adverse weather conditions and commodity (including cotton) price volatility can negatively affect agricultural output and exports, increase subsidy needs, and reduce the living standards of the population. While rising oil prices also constitute a source of risk, the impact of a rise in oil price is mitigated by the fact that a large share of Benin energy supply is from hydro and that energy imports from Nigeria are from natural gas sources, which are only weakly correlated to world fuel prices[14]. Meanwhile, a faster than expected rise in global interest rates could trickle down to the West African regional financial market and translate into higher borrowing costs for both the public and private sectors.

2.24 The macroeconomic framework for the proposed operation in Benin is considered adequate. The short to medium term outlook is positive with: economic growth projected at approximately 6 percent per year, underpinned by continued strength in agricultural production and sustained investments; a low and stable inflation rate; and the consolidation of both the external and fiscal deficits. The Government is committed to bring the fiscal deficit and debt-to-GDP ratio back to more sustainable levels, in line with the 2019 West African Economic and Monetary Union (WAEMU) fiscal targets. Such commitment has been supported by the recent measures to rationalize current expenditures and improve revenue mobilization. The Government macroeconomic and fiscal framework is also supported by an IMF ECF-supported Program which aims to address Benin's balance of payments needs and alleviate impediments to inclusive growth and poverty reduction.

2.3. IMF RELATIONS

2.25 The operation builds on close collaboration with the IMF. The performance of the EFC-supported program remains broadly satisfactory. On June 29, 2018, the IMF Executive Board completed the second review of the three-year arrangement with Benin under the ECF. The IMF Board decision led to the disbursement of US$22.4 million, thus bringing total disbursements under the arrangement to US$67.6 million. The ECF-supported program focuses on increasing domestic revenue mobilization by broadening the tax base and modernizing the tax and customs administration; preserving debt sustainability by preparing a medium-term debt management strategy; and strengthening private sector development by improving the business climate. The World Bank team is closely coordinating with IMF counterparts and regularly exchanging views on the adequacy of the macroeconomic policy framework and the status of the reform agenda. Both teams are aligned in supporting measures that will strengthen Benin's fiscal and debt sustainability and help remove obstacles to inclusive growth such as bottlenecks arising from an underdeveloped human capital and limited private sector development. The IMF has been fully consulted in the preparation of this proposed operation and has made substantive contribution to its design.

[14] Calculations based on Trimble, Chris, Masami Kojima, Ines Perez Arroyo, Farah Mohammadzadeh. "Financial Viability of Electricity Sectors in Sub-Saharan Africa: Quasi-Fiscal Deficits and Hidden Costs" (2016) show that, in Benin, the fuel cost impact of oil price rising from US$50 to US$100 per barrel is the lowest in non-oil producing countries in West Africa.

3. GOVERNMENT PROGRAM

3.1 The Government of Benin released its Development Plan – the GAP – on October 26, 2016. The GAP is aimed at boosting investment (public and private) to encourage greater productivity and inclusive growth. 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. By recognizing the importance of ensuring access to quality education and health for all, the GAP emphasizes that key inputs for social service delivery needs to be in place throughout the country. Funding of the GAP relies heavily on PPPs. A discussion of the GAP, the relevance of PPPs, and the associated fiscal risks are provided in the Program Document presenting the first operation in the DPF series.

3.2 In February 2018, the Government took stock of the progress achieved and presented results to the country's technical and financial partners. During the first year of implementation, the Government passed reforms improving the business climate, strengthening governance and fiscal management, and strengthening social service delivery. Part of these reforms are supported under this DPF series. Going forward, the key challenge for the Government is the funding of the GAP, particularly in a context where the Government plans to reduce capital expenditures. In this context, 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, promoting private sector participation while monitoring fiscal risks stemming from PPPs will be essential going forward.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1 The Fiscal Reform and Growth DPF series aims at supporting the Government's effort to implement its GAP over the period 2016-2021.

4.2 The proposed operation continues supporting the reforms started under the same the two pillars of the first operation of this DPF series, with the inclusion of a third pillar on social services. The first pillar continues to focus on strengthening fiscal management. Strong fiscal management will support macroeconomic stability which is a prerequisite for sustainable economic growth. In addition, enlarging the fiscal space will help increase the allocation of fiscal resources to essential social services and interventions that raise the productivity of poor households.

4.3 The second pillar aims at enhancing agricultural productivity through value addition and improving power sector's financial viability. In agriculture, priority is given to improving the sector's policy and governance framework, by supporting the Government in its effort to implement a new environment that will facilitate access to technology, improve provision and targeting of capital investment in agriculture, and help increase market access through enhanced product quality. Ultimately, these measures, jointly with other World Bank operations in the sector, will contribute to Benin's strategic priority to develop competitive agri-food value chains. In the power sector, the measures supported by the DPF series are to strengthen its financial viability, which is necessary to attract further private sector participation, to increase electricity production capacity, including in renewables, and to favor better and more reliable access to electricity.

4.4 **The proposed operation entails two important changes with respect to the previous operation of this DPF series.** The first is that a third pillar supporting a more equitable provision of education and health care services has been introduced. The inclusion of a third pillar reflects the results of the Benin Systematic Country Diagnostic approved in January 2018 and the renewed commitment of authorities in this area. Although Benin has recorded progress in terms of access to education and health services over the past decade, significant disparities persist depending on the income groups and locations. The Government has committed to ensuring a more equitable distribution of education and health staff and the proposed operation will support these initiatives. The second change in the proposed operation is that it will include both an IDA Credit and an IDA Policy-Based Guarantee (PBG). The provision of a PBG[15] will support the country's debt management strategy and contribute to one of the main objectives supported by the DPF series, i.e. strengthening fiscal management. The proposed PBG would support Benin in accessing new commercial financing sources, diversifying its funding base and establishing a track record for regular future access to such commercial markets. The Government has expressed its intentions to use the proceeds of the commercial loan guaranteed by the PBG to prepay existing and more expensive short-term debt accumulated on the domestic and regional markets. This would reduce the Net Present Value of public debt and lead to reduced interest payments over time.

4.5 **These two changes do not modify, and rather increase, the rationale for WBG support, which is to support the implementation of the GAP and the PC2D.** The DPF series aims at supporting the Government's effort to implement its GAP and PC2D over the period 2016-2021. The series has been limited to two operations as it has been 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. The next DPF series, planned under the current CPF, will evaluate the coverage of priority areas.

4.6 **The proposed project is fully anchored in the World Bank Group's Maximizing Financing for Development (MFD) approach.** The objective of the MFD approach is to mobilize private finance, enabled by upstream reforms where necessary to address market failures and other constraints to private sector investment at the country and sector level, including the provision of guarantees and risk-sharing instruments to mitigate risks. The proposed operation can be classified as both "MFD-implementing" and "MFD-enabling" operation as it will use scarce IDA resources to mobilize private sector financing to strengthen the fiscal position of Benin while also contributing to attracting private sector investment in two strategic sectors, agriculture and power. The reforms in both fiscal policy and social services should also help encourage private sector participation as macroeconomic as well as fiscal stability and human capital are key factors for firms' investment and productivity. Moreover, the measures supported under the second pillar contribute to attracting private investment in the agriculture and power sectors**.** First, in the agriculture sector, private investments will be enhanced by strengthening value chains. Second, in the

[15] Please see Annex 4 for a detailed discussion on the PBG and Annex 5 for the indicative PBG term sheet.

power sector, the DPF series will help to promote private sector investment by supporting measures to improve the financial viability of the power sector, which is a requirement to attract private and public capital in the sector and is needed to enhance the reliability of the power supply.

Lessons Learned

4.7 Previous DPF series in Benin and related Implementation and Completion and Results Reports (ICRs) and Independent Evaluation Group (IEG) evaluations have resulted in a number of lessons learned: (1) in past development policy financing 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) development policy financing 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 and focused on measures that are directly attributable to supported actions and consistent over time.

4.8 The latest PRSC series and the first DPF in the new 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.

4.9 The proposed operation will build on experience in attracting commercial financing to sovereigns and state-owned utilities through the support of IDA and IBRD loan guarantees. This has been done successfully in Pakistan in 2017 through two successful operations. IBRD supported the government of Pakistan in raising US$ 700 million of commercial financing with the support of US$ 420 million guarantee supported while IDA helped WAPDA - the water utility - raise US$ 350 million of commercial financing with the support of a US$ 210 million guarantee. More recently, the Government of Montenegro raised a EUR 250 million commercial loan in June 2018 with the support of a EUR 80 million IBRD guarantee.

4.10 The competition between international banks for previous operations led to pricing benefits and tenor extension that had not been achieved previously. The proposed operation therefore intends to replicate this success by having an open competition between international banks to ensure that the best terms are achieved. The most recent operations show that a guarantee coverage between 30 percent and 60 percent is usually required to attract commercial lenders and achieve competitive terms for the borrower. Feedback from the market shows that a guarantee coverage of 40 percent should be sufficient for GOB to achieve very competitive terms on commercial financing.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

The proposed operation is organized around three strategic pillars:

- Pillar 1: Strengthening Fiscal Management;
- Pillar 2: Increase Agricultural Productivity and Strengthen the Power Sector's Financial Viability;
- Pillar 3: Improve Equitable Access to Education and Health Services.

Pillar 1: Strengthening Fiscal Management

Objective

4.11 The first pillar in the new DPF series supports the Government's efforts to strengthen fiscal management in two priority areas: (a) domestic resource mobilization; and (b) public spending efficiency. The Government is committed to addressing key infrastructure constraints, particularly in the areas of electricity and roads, and strengthening social service delivery. To achieve its goals, it is key to increase domestic revenue and to improve the efficiency of public spending. Some progress was achieved, with the deficit falling from 8.0 percent of GDP in 2015 to 5.9 percent of GDP in 2017, but further consolidation measures are needed in 2018 and 2019.

Area A – Strengthening Domestic Resource Mobilization

Prior Action 1: In order to reduce tax expenditures, the Recipient's Ministry of Economy and Finance has notified cell phone companies that the tax exemptions granted previously to said companies will not be renewed.

Prior Action 2: In order to simplify tax collection, the Recipient's Ministry of Economy and Finance has launched a new system for the electronic reporting of corporate taxes and has required all large firms to use said system.

Background

4.12 Despite recent efforts by the Government to mobilize additional revenues, the level of domestic revenue remains low in Benin compared to other WAEMU countries. Tax revenues in Benin were two percentage points lower than the WAEMU average between 2012 and 2016. As emphasized in FRG1, several factors explain such weak performance, including (i) a narrow tax base because of the large informal sector; (ii) weak tax administration stemming from a lack of human, financial, and technical resources, including the absence of reliable information systems; (iii) tax evasion; and (iv) generous tax exemptions.

4.13 A specific weakness of the tax system in Benin has been the magnitude of tax expenditures, estimated at around 24 percent of tax revenues and 3 percent of GDP in 2016. Tax expenditures (or the loss in tax revenues from tax exemptions) more than doubled in Benin from CFAF 75 billion in 2013 to CFAF 153 billion in 2016. As such, they become also significantly higher than in other countries, such as Côte d'Ivoire, where tax expenditures were equivalent to only 7 percent of tax revenues or 2 percent of GDP in 2016 even though measurement issues made those figures not strictly comparable. Recent studies prepared by the IMF and other development partners have demonstrated that many tax exemptions are redundant and not economically justified as they fail to influence significantly the decisions of potential investors while being costly to the State.[16]

Progress since DPF1

4.14 DPF1 supported the adoption of several measures to boost tax collection. To increase compliance with tax procedures and reduce tax evasion, the MEF piloted an electronic system with the aim to improve the exchange of information between the central tax authority (the *Direction Générale des Impôts,* DGI) and the customs authority (the *Direction Générale des Douanes et Droits Indirects*, DGDDI). Concurrently, to simplify tax collection and encourage compliance with tax procedures, the DGI enabled the largest 100 corporate taxpayers registered in its database to declare their taxes online and process their tax payments through the banking system.

4.15 Partly as the result of these two administrative measures, tax collection increased by 0.6 percent of GDP in 2017. Such progress arose principally from taxes on domestic transactions, while taxes on international trade remained almost flat. This momentum has to continue through further improvements – especially with regards to tax expenditures – if the Government wants to increase its fiscal space and maintain its macroeconomic and fiscal framework on a sustainable path over the medium term.

4.16 Besides the measures supported by the first operation, the Government created a new Tax Policy Unit (TPU) at the DGI to strengthen evidence-based policy making on fiscal matters. The Tax Policy Unit is now operational. The first nine agents joined the TPU in March 2018, and a Head of Unit was appointed in April. The TPU will publish regular reports on tax policy issues for the DGI and the MEF. The newly-created unit is currently developing a tax reference system (TRS) to better quantify tax expenditures.

Prior actions

4.17 Prior action 1 supports the non-renewal of tax exemptions benefiting cell phone companies. In line with the objective to reduce inefficient tax expenditures, the Government has suspended the exemptions that were granted to cell phone companies during the last ten years. If such exemption was justified to reduce the initial investment costs to construct the cellular telephone infrastructure required to develop a mobile phone network in Benin, it has lost its relevance in recent years. At least five different companies received exemptions between 2007 and 2010. For two of the largest cell phone companies, the Government renewed these tax exemptions in 2012 and 2013 respectively for an additional five years. Not renewing these tax exemptions will help the Government increase fiscal revenues.

4.18 Prior action 2 will support the Government's efforts to simplify tax declarations and increase tax compliance in line with DPF1. Prior Action 2 simplifies tax declarations as the Government launched a new system for the electronic reporting of corporate taxes in 2018. All large firms have been required to use the e-service platform (SIGTAS) for reporting their taxes. This group of large taxpayers accounts for approximately 70 percent of corporate tax revenue in Benin. This prior action represents another

[16] IMF 2018 *Analyse des dépenses fiscales* ; IMF 2015 *Politique fiscale : fiscalité générale, fiscalité du secteur informel et fiscalité minière* ; IMF 2008 *Modernisation du système fiscal : orientations et stratégie de réforme*.

significant step in the process of simplifying tax compliance. The measure supported by DPF1 enabled the 100 largest taxpayers to pay taxes through the banking system whereas the prior action supported by DPF2 requires all large taxpayers (about 500 taxpayers) to use the electronic declaration system. Going forward, the authorities plan to assess the viability of integrating also SMEs in the online platform by initiating a pilot project for tax reporting and filing targeted to SMEs located in the Cotonou region.

Expected Results

4.19 These combined measures are expected to promote tax compliance and boost tax revenue mobilization. The rationalization of tax expenditures will have a positive impact on revenue mobilization, which are expected to attain a 14.9 percent tax-to-GDP ratio by 2019 (up from a 13.9 percent average registered during the period 2014-2016). The non-renewal of tax exemptions for cell-phone companies is expected to reduce associated tax expenditures from FCFA 17.5 billion in 2016 to less than FCFA 1 billion in 2019 (a reduction of about 0.35 percentage points of GDP). Meanwhile, requiring firms to file and pay their taxes online (using the SIGTAS system) and via banks will likely strengthen the tax payment system and increase revenue mobilization as this will facilitate tax declaration and payments. It will also contribute to higher transparency by limiting the contacts between taxpayers and tax agents and, so, protect public funds from mishandlings. Tax payments processed electronically and through the banking system are expected to grow fast and about 65 percent of non-customs tax payments are expected to be processed through non-cash transactions by 2019.

Area B – Improve the Efficiency of Public Spending

Prior Action 3: In order to enhance the accuracy of the Recipient's public payroll, the Recipient's Ministry of Labor and Public Function (MTFPAS) and the Ministry of Economy and Finance (MEF) have unified the wage management system by harmonizing and linking the MTFPAS database of civil servants with the MEF database used to pay civil servants' salaries, benefits, and other monetary compensation.

Background

4.20 To create more fiscal space and fund its investment plans, Benin is implementing reforms to improve the efficiency of public expenditure. As part of the Government Action Program (GAP), capital spending increased from 5.9 percent of GDP in 2016 to 9.3 percent in 2017, and is projected at 8.6 percent in 2018. In this context, Benin must control its current public expenditures, in particular the wage bill that has been high in Benin compared to other sub-Saharan African and low-income countries.[17] In 2016, the wage bill accounted for 45 percent of total current expenditures in Benin, compared to 40 percent in Togo and 34 percent in Guinea during the same period. One way of reducing the wage bill is to tackle the issue of public sector fictitious workers, an important concern in Benin and other sub-Saharan African countries. The DPF series has accompanied the Government in its effort to control better the wage bill by improving the identification and monitoring of civil servants in the different databases used by the Government.

[17] In the World Bank's most recent *Size of the Public Sector: Government Wage Bill and Employment* database completed in November 2015, wages in Benin accounted for 42 percent of current expenditures in 2012. This compared to multiyear averages for sub-Saharan Africa and low-income countries of just 27 percent and 25 percent, respectively.

Progress since DPF1

4.21 **In 2017, the Government reduced its primary current expenditures by 1.1 percentage points of GDP.** This was achieved by a decline in current transfers (down by 0.7 percent of GDP), the wage bill (down by 0.3 percent of GDP), and expenses on goods and services (down by 0.2 percent of GDP).

4.22 **As part of this consolidated effort, the Government identified cases of potential fraud in the payment of salaries and benefits to civil servants, with a subset of them subject to administrative and judicial actions.** Supported by prior action 4 of DPF1, the authorities completed a census of public sector workers, including civil servants, military personnel, and pensioners in 2017. This exercise helped to identify about 400 potential cases of fictitious workers[18]. After an investigation by a joint team from the MEF and the MTFPAS (*Ministère du Travail*, *de la Fonction publique et des Affaires sociales*), 39 cases of fictitious workers have been confirmed – 6 teacher positions and 33 other public service worker positions and all identified fictitious workers have been removed from the payroll. The authorities have also arrested 11 individuals, who are currently awaiting trial.

Prior action

4.23 **Prior action 3 supports the Government's efforts to link the human resource management information system at the MTFPAS with the payroll management system at the MEF**. To reduce the risk of fraud from fictitious workers in the future, the prior action aims to ensure that the data in the payroll system (SunKWE) matches the data in the human resources system (SIMERPRO). The Government has not only completely reconciled and connected the two databases but it has also ensured that the data will continue to remain identical in the two databases going forward. The new management system of the payroll database, SunKWE, can only be updated from the human resources database, SIMERPRO. The data cannot be entered manually by staff in SunKWE, preventing any deviance between the two databases.

Expected Results

4.24 **Prior action 3 is expected to strengthen human resource management and ensure more efficient wage spending in the future.** All the fictitious workers identified through the Staff Census and the follow-up review by MEF and MTFPAS have been removed from the payroll. By connecting the human resources and payroll systems and bringing alleged fraudsters to justice, Benin has taken measures to reduce the risk of fraud from fictitious workers going forward and the associated loss to the Treasury. At least 90 percent of civil servants' salaries and benefits will be processed through the unified wage management system by 2019. Although these measures are not expected to produce large expenditure savings in the short-term, over the long-term they will contribute to the strengthening of human resource management in the Government and more efficient spending on the wage bill.

Pillar 2: Increase Agricultural Productivity and Strengthen the Power Sector's Financial Viability

[18] Of the 7,825 workers who did not respond to the census, about 95 percent successfully reported to the authorities, while 5 percent were identified as potential suspects.

4.25 **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 of the agriculture sector, which still employs half of Benin's labor force, and enhance 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.

4.26 **The DPF series aims at supporting the Government in its efforts by focusing on two main objectives.** The first is to increase the productivity 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 the reliability of electricity supply, which is consistently viewed as one of the key constraints by firms operating in Benin.

Area A – Increase agricultural productivity

Prior Action 4: In order to promote agricultural research, the Recipient's Council of Ministers has adopted the National Program for Agricultural Research (NPAR) and the National Institute for Agriculture Research (INRAB) has launched agro-ecological zone-specific research activities.

Prior Action 5: In order to promote larger scale adoption of improved technology in the agriculture sector, the Recipient's Council of Ministers has adopted the National Agricultural Extension Strategy (NAES) that promotes the delivery of extension services by private operators.

Prior Action 6: In order to increase and monitor the quality of agricultural products, the Recipient has adopted a National Policy for Quality and started to implement its Action Plan for food quality and safety in the agriculture sector by defining quality standards for pineapple.

Objective

4.27 **The program supported under this pillar aims at improving agricultural productivity.** To achieve this objective, FRG1 supported the reform of the institutional framework for agricultural development; the creation of the National Fund for Agriculture Development to promote private investments in the sector; and the improvement of agricultural products quality standards. The proposed second operation in the series supports reforms in the area of agricultural research for the generation and adoption of improved agronomic technology and continues to support improvements in the quality and food safety of key export crops.

Background

4.28 The agricultural sector is central to the economic development strategy in Benin but it suffers from low productivity. Benin's agriculture sector enjoys a favorable endowment of land and water resources but has not been able to fully exploit its potential. While the agriculture sector employs about 50 percent of the workforce, it only generates about 25 percent of the GDP. This low contribution is explained by the low productivity of this sector, below the regional average and stagnating over the past decade. Recent studies have emphasized that most farmers in Benin suffer from limited access to key productive resources, such as finance, water, land, and technology, which limits their ability to take advantage of the fast growing urban, regional and international markets. The low quality of products is also a major constraint to accede to major consumer markets in cities and in external markets.[19]

4.29 The WBG has and will provide comprehensive support to Benin in the agricultural sector, using different instruments. The Agricultural Productivity and Diversification Project (PADA, P115886 and P160029) focuses 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, P122065 and P158983) is promoting the adoption of agricultural innovation and access to improved inputs through support to agricultural research, extension and advisory services. The project also supports mechanization by promoting access to equipment and labor-saving technologies for women.

4.30 As part of this support, the DPF series supports the Government in its efforts to develop an appropriate institutional framework to encourage the development of specific value chains in Benin. As part of this reform, seven agro-ecological zones were identified where regional agencies were established with the objective to promote an integrated development and specific priority agri-food value chains in their respective zone. The Government's reform focuses on a series of actions, including research and technology generation and/or adoption that is viewed as a central element of a landscape-adapted agricultural development. The attention was also given on the importance of promoting access to finance in the sector, which is necessary to finance the purchase of modern inputs and new technologies. Lastly, a quality policy was designed to facilitate the marketing of the agri-food products promoted under the new policy and institutional framework.

Progress since DPF1

4.31 The Government created decentralized, crop-specific development agencies to promote the development of value chains and ultimately boost productivity in the seven identified agro-ecological zones. All the seven Agence Territoriale de Développement Agricole (ATDA) were created and their Directors and key staff have been appointed. Tailored attention to the challenges and potential of each specific crop started yielding results as shown by the increase in the amount of processed cashew, pineapple, and rice. Moreover, the Government has created research sites across the seven agro-ecological zones and a diagnostic study was undertaken in the research sites to identify the technological and organizational innovations generated and levels of use of these innovations by producers. The diagnosis led to the identification of priority research themes that will be investigated in experiments in the research sites. Moreover, the Government made significant progress in advancing the irrigation agenda through public investments and the irrigation policy framework is gradually being operationalized.

[19] These key constraints and priority areas are identified in the recently completed World Bank Benin Systematic Country Diagnostic. Report# 114822-BJ; January 5, 2018.

The irrigation program documents prepared for each of the seven agroecological zones is in the process of being validated and endorsed by the Ministry of Agriculture.

4.32 The Government strengthened the FNDA to encourage greater private investments in the agriculture sector. The Executive Body in charge of managing the daily operations of the FNDA is now set up, led by a newly appointed Director General. To demonstrate its commitment towards FNDA and make the Fund operational, the Government has provisioned an initial allocation of US$5 million in the 2018 Budget.

4.33 The Government intensified its effort to improve the quality and safety of agricultural products. Significant investments have been made to improve quality control through the main pillars of metrology, standardization, certification, inspection and laboratories. Special attention was dedicated to the management of Ethephon Crisis in Pineapple exports in response to multiple alerts reported by the European Union concerning above-limit of Ethephon residue found in Benin pineapple (>2mg/kg). Other specific progress in the area of quality control of agricultural products include: (a) establishment within the central laboratory for food safety (LCSSA) of an analytical method to test Ethephon presence in line with the European standard "QuPPe-Method, version 8.1: 2015" which led to the successful granting of accreditation in the method since February 1st, 2018; (b) the strengthening of the role and missions the Agency for Food Safety (ABSSA) in relation to the new institutional framework of through Decree No. 2017-433 August 10, 2017 making ABSSA, the unique structure in charge of certification of food products in Benin; (c) the development and implementation of two plans to monitor, first, contaminants in food and, second, the performance in terms of quality of products for the agri-food enterprises.

Prior Actions

4.34 This second operation aims at consolidating results of the first operation by focusing on three main areas: (i) support agricultural research and adoption of improved technology to boost agricultural productivity within the seven established agroecological zones; (ii) promote larger scale adoption of improved technology in the agriculture sector by revisiting the existing agricultural extension strategy and strengthening the delivery of adequate extension services by the private sector; and (iii) strengthen the capacity of national entities (laboratories and dedicated agencies) to monitor the quality of agricultural products so as to increase access to regional and international markets.

4.35 The Government has adopted a National Program for Agricultural Research (NPAR) and launched agro-ecological zone-specific research activities (Prior Action #4). 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 for the climate threat and the acute land degradation in Benin. For these reasons, the Government adopted the National Program for Agricultural Research, which complements the agricultural component of the GAP. Research activities will focus on the priority research themes identified by the diagnostic study mentioned above in the progress section. Forty-five (45) new staff were recruited and experiments on 15 research sites have been launched. These research themes include, inter alia, integrated soil fertility management, water use efficiency, and yield-enhancing techniques for maize, rice, pineapple and cashew. The research activities will be targeted to specific agricultural products cultivated in the different agro-ecological zones and make available improved technologies for both exports and food crops which would improve productivity. The research activities will be financed from (i) Government budget; (ii) development partners; and (iii) other sources, which may include the FNDA.

4.36 The Government has adopted the National Agricultural Extension Strategy (NAES) with a strong emphasis on private sector involvement in the delivery of extension services (Prior Action #5). To increase productivity and value addition there is a need to promote wide-scale adoption of improved technologies. Because the current agricultural extension strategy has demonstrated its limits (for example, insufficient personnel and inadequate funding to pay for the services; weak coordination between entities in charge of agricultural extension services delivery; limited technical capacity of extension workers; and insufficient use of ICT in extension services), the Government has prepared a new one with a view to strengthening the delivery of adequate and cost-effective extension services including through a stronger involvement of private sector. The new Agricultural Extension Strategy will help farmers to adopt innovations, produce higher quality products and get greater market access; thereby contributing to increased productivity. The private extension service providers will first apply for accreditation for a period of five years with possibility of renewal, based on selection criteria recently issued by the Ministry of Agriculture. Once accredited, these private entities can participate in a competitive bidding process to be selected to provide services for specific zones, value chains and types of extension services. Once service providers are selected, a performance-based service contract will be signed. Stronger private participation can ensure the financial sustainability of the strategy through a competitive approach based on market signals and needs. This reform would complement the one on agricultural research and enhance technology adoption and hence productivity and value addition.

4.37 The Government has adopted a National Policy for Quality, started the implementation of the Action Plan for food quality and safety in the agriculture sector and adopted norms and quality standards for pineapple (Prior Action # 6). Food consumers, and especially those in urban areas, are increasingly concerned about food and nutritional quality. The Government is expected to play a key role in the adoption of appropriate standards, as a guarantor and regulator. A recent World Bank study[20] revealed that metrology was inadequate and quality control in the food system was either nonexistent or non-credible in the absence of certified laboratories. A new policy addressing food quality in an integrated and coherent approach is in the process of being adopted, in line with the Economic Community of West Africa State's (ECOWAS) regional quality policy. In this context, the Government adopted quality standards for pineapple in line with international norms and it is updating the existing norms and quality standards for cashew.

Expected Results

4.38 The measures supported under this operation will have a short-term impact on technology for food processing, quality of agricultural products, and their market access; and a medium-term impact on the productivity of the agriculture sector. In the short term, the measures supported by this operation are expected to strengthen value chains (and increase the number of processed products per ton of relevant agricultural produce), help increase private investments in the agriculture sector and contribute to the improvement of the quality of agro-food products, all of which will contribute to agricultural productivity increases in the medium term.

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

4.39 The short-term impact of the measures supported by FRG2 will be assessed by a series of indicators. These indicators will monitor the increase in the quantity of processed agricultural products (in particular, processed cashew, pineapple juice, and milled rice) and the share of samples tested by the LCSSA which meet international standards. The quantity of processed pineapple is expected to grow from 52,000 tons (2016) to more than 100,000 tons (2019); the quantity of processed cashew nuts is expected to increase from 5,600 tons (2016) to 8,500 tons (2019); and the quantity of milled rice per ton of rice produced is expected to increase from 33,300 tons (2016) to 69,500 tons (2019). As a result of the Government's strategy to increase the quality of agricultural products, the proportion of samples of key export crops (pineapple and cashew) tested by LCSSA and compliant with international standards is expected to increase from 88.6 percent in 2017 to more than 90 percent in 2019 for cashew, and from 88.1 percent to more than 90 percent for pineapple. Finally, at least 15 new different research activities ("experiments") are expected to be launched by 2019. In the medium-term, the agricultural productivity increases will be the combined effect of this DPF and other ongoing World Bank operations[21.]

Area B – Strengthen the Power Sector's Financial Viability

Prior Action 7: In order to support the financial viability of the power sector, the Inter-State High Council for CEB has adopted a wheeling charge of FCFA 10 per kWh to compensate the bi-national utility CEB on the use of the transmission networks to transit energy to SBEE.

Prior Action 8: In order to improve SBEE revenue collection, SBEE's Board of Directors has approved the roll out of Smart Energy Meters for large consumers under the Revenue Protection Program to reduce commercial losses.

Objective

4.40 The objective of this pillar is to strengthen the power sector's financial viability. The program of policy actions supported under this pillar aims at capitalizing the effort that has been initiated under the DPF1 to strengthen the financial viability of the electricity sector in Benin.

Background

4.41 The electricity sector is facing a cascade of challenges. First, CEB, the bi-national utility of Benin and Togo, has been recently unable to implement in a timely manner an investment program of reinforcement and construction of transmission networks because of the arrears of the distribution utilities in Benin (SBEE) and Togo. This fragile financial situation has negatively impacted the reliability of the transmission networks and imports of electricity. Second, the sector is currently financially weak. Electricity retail tariffs, albeit high by regional norms, are below cost-recovery level. This is because supply costs are very high mainly due to expensive generation mix and mediocre performance of SBEE. In fact, (a) the Government of Benin has contracted expensive thermal generation to address power outages due

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[21] 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.

to unavailability of power imports arising from temporary supply challenges in Ghana and Nigeria; (b) SBEE's combined technical and commercial losses are high at 24 percent, and (c) the income of the utility only covers 80 percent of its costs, based on 2017 data. SBEE has implemented a plan to reduce its arrears with CEB with the target of totally settling arrears by 2020.

4.42 The financial viability of Benin electricity sector is weak. Although already high at US$0.19/kWh (which is about 40-50 percent higher than the average in SSA), tariffs currently do not fully cover the costs due to high losses and use of costly thermal generation in the energy mix to reduce power shortages leaving the utility with a subsidy requirement of US$36 million annually. In 2016, the total revenue (energy billed) of SBEE amounted to FCFA 113.10 billion whereas the total amount of operational expenditures was FCFA 122.16 billion. In addition, the revenue collection rate for 2016 was about 60 percent with 5 percent rate for the public institutions. In 2017, the total amount of operational expenditures was FCFA 133 billion and the total revenue amounted to FCFA 121 billion[22]. SBEE revenues covered only about 80 percent of its operating expenses. SBEE's weak finances have led to the accumulation of substantial arrears for power imports with CEB that reached almost FCFA 40 billion in July 2017.

4.43 To address these challenges, the Government has launched a series of initiatives. To increase power supply, the Government financed from public funds a 125 MW HFO power plant (currently under construction), which will reduce and eventually eliminate the use of rental power, and is considering an additional dual fuel IPP. It has also contracted a new interconnector with Ghana scheduled for completion by 2019, which will further boost import capacity, and has requested Bank financing for an interconnector to increase electricity supply to Malanville (North Core Interconnector). To address the high losses, SBEE has adopted a performance contract and started the rehabilitation and reinforcement of its existing distribution networks. To increase revenue of SBEE, as part of this DPF series, the GoB has agreed to install prepaid meters in government buildings and the SBEE Board of Directors has adopted a revenue protection program to ensure that large consumers[23] regularly pay their consumption in full and on time. In addition, the Government has commissioned a tariff study to establish a tariff policy to achieve cost reflective tariffs.

Progress since DPF1

4.44 DPF1 supported the GoB to implement policy reforms and corrective measures to enhance the electricity sector financial viability. The two prior actions of the DPF1 focused (i) on the settlement of SBEE arrears with CEB; and (ii) on the timely payment of electricity bills to SBEE through the installation of prepaid meters in government administrative buildings and through advance payment of consumptions for strategic institutions.

4.45 SBEE has been regularly reducing its arrears with CEB. The GoB cleared its arrears with SBEE and SBEE reduced its arrears with CEB by about 50 percent in August 2017 and committed to pay the amount of FCFA 500 million per month starting September 2017 for a period of 30 months to clear its arrears with CEB. In addition, SBEE committed to regularly pay its monthly energy bill to CEB to prevent the creation of further arrears. SBEE has confirmed it has regularly paid CEB so far and that it will make effort to respect the implementation of the plan to fully clear its arrears by April 2020 as initially planned. SBEE's arrears

[22] Figures stated in the non-audited financial statement received from SBEE.
[23] 5 percent of the total consumers represents about 60 percent of the distribution utility's revenues in Benin.

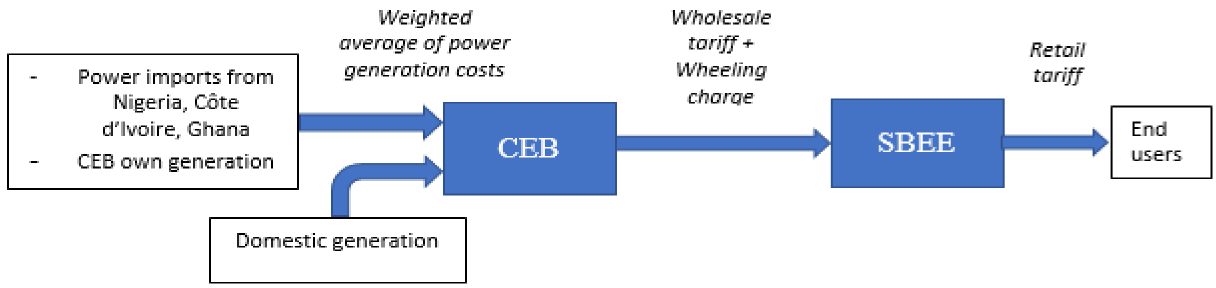
with CEB declined from about CFAF 39 billion in June 2017 to about CFAF 25 billion in December 2017. SBEE's arrears with CEB kept decreasing in 2018 and reached FCFA 22.9 billion as of May 2018. SBEE has confirmed it has regularly paid CEB so far and that it will respect the implementation of the plan to decrease the arrears to FCFA 10 billion by December 2019 and to fully clear its arrears by April 2020 as planned.

4.46 To increase the revenue collection rate, SBEE has implemented the installation of prepaid meters. As of February 2018, SBEE installed 44,700 prepaid meters out of the total of 45,000. SBEE confirmed that the installation of these prepaid meters, which was also supported under the Bank-funded IAME project has improved its revenue collection rate from all public-sector institutions from 5 percent in 2016 to about 45 percent in 2017. To continue this effort, the installation of an additional 75,000 prepaid meters is included under the Bank-funded PASE project targeting other customers of SBEE. In the context of revenue collection improvement, the utility has set up a target to install 200,000 prepaid meters overall. In addition, SBEE is implementing the decree enforcing the advance payment of consumption for strategic institutions in the country.

Prior Actions

4.47 To strengthen the financial viability of the power sector, the Government adopted a wheeling charge to compensate the bi-national utility CEB on the use of the transmission networks to transit energy to SBEE (Prior Action #7). The Government has published reference values for the 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. Figure 3 summarizes the tariffs applicable along the country's electricity sector commercialization chain. In April 2018, the Haut Conseil Inter-Etatique of the two Governments of Benin and Togo adopted the wheeling charge of FCFA 10 per kWh to compensate CEB on the use of transmission networks. This measure is key to increase transparency of tariffs and avoid hidden subsidies to the SBEE by CEB. Despite the adoption of the wheeling charge, SBEE confirmed that retail tariffs would not be increased to compensate for the additional cost. Instead, SBEE will try to reduce losses (for example, by launching the roll out of smart energy meters supported by the next Prior Action) and the GoB would provide a subsidy at the end of each year to cover the remaining gap.

Figure 3. Types of applicable tariffs along the electricity sector commercialization chain



Source: WB Staff.

4.48 SBEE's Board of Directors has approved the roll out of Smart Energy Meters for large private consumers under the Revenue Protection Program to reduce commercial losses (Prior Action #8). Based on the configuration of its networks, SBEE's system losses of 24 percent (in 2015) include both technical and non-technical losses of which a significant part of them are in the segment of large consumers. In Benin, less than 5 percent of the total consumers represents about 60 percent of the distribution utility's revenues. Considering the available budget, the implementation of the Revenue Protection Program by rolling-out smart meters[24] in large consumers (including from the private sector) premises and continuously monitoring their consumptions will help SBEE to reduce commercial losses and to secure about 60 percent of its revenues in a permanent manner. The installation of smart meters is expected to take place in 2019, after the completion of the associated procurement process[25]. While this measure runs risk of reversibility in light of vested interests among large consumers, the successful installation of prepaid meters supported by the first operation of this series provides assurances that the government will keep to its commitment to implement the installation of the smart energy meters. Moreover, the Government highlighted in the letter of development policy that the installation of smart energy meters will be further supported by a resolution of the Council of Ministers before the end of 2018.

4.49 The change of the indicative triggers proposed for the first operation in the series into the two Prior Actions supported by the proposed operation reflects the evolving priorities of the energy sector in Benin. The two prior actions proposed for this operation will address bottlenecks to the improvement of the financial viability of the sector in Benin by focusing on the most important areas which would have impact in the short term. The financial viability of CEB and SBEE is key for enabling private sector participation in the country and in the region and for the achievement of regional integration by 2021. In line with this objective, SBEE kept reducing its arrears with CEB in line with what was envisaged through the indicative trigger identified for the previous operation. In the current context, working on efficiency enhancement through loss reduction and revenue collection improvement would be the priority for Benin in the short-run. In addition, the introduction of the wheeling charge related to the use of transmission networks is more urgent than developing a methodology to update tariffs. The decision of the GoB to import from an IPP based in Nigeria and to increase national generation with IPPs would significantly impact the financial viability of CEB if the wheeling charge is not in place because CEB has lost its function as the single buyer and producer for Benin.

Expected results

4.50 The reforms supported under this program are expected to significantly strengthen Benin's power sector financial viability. SBEE revenue collection rates from public-sector institutions is expected to increase tenfold, from 5 percent in 2016 to 50 percent in 2019. In addition, the Revenue Protection Program and the installation of smart energy meter for large consumers is expected to protect a significant part SBEE's revenue (from 0 percent in 2016 to 40 percent in 2019. Higher collection rates will help SBEE to gradually reduce its arrears with CEB from CFAF 39.2 billion in 2017 to CFAF 10 billion in 2019 and

[24] A smart meter is an electronic device that records consumption of electric energy and communicates the information to the electricity supplier for monitoring and billing. Smart meters typically record energy hourly or more frequently, and report at least daily. Smart meters are part of the Government of Benin's strategy to increase invoicing and improve billing collection rates, and can be an instrument to cut off delinquent payers.
[25] The procurement and installation of smart energy meters will be implemented under the IDA-funded Energy Service Improvements Project (P161015).

therefore improve the financial situation of the bi-national utility CEB, which would also benefit from the adoption of the wheeling charge. An improvement of CEB's financial situation would allow CEB to undertake adequately the maintenance of transmission networks and reduce power interruptions.

Pillar 3: Improve Equitable Access to Education and Health Services

Prior Action 9: In order to improve equitable access to education services, the Recipient's Ministry of Pre-School and Primary Education has required all newly recruited primary teachers to be deployed to communes where the pupils/teacher ratio is higher than the current national average by virtue of *Arrêté* 2018/070.

Prior Action 10: In order to improve equitable access to health services, the Recipient's Ministry of Health has required that at least 80 percent of newly recruited key health care professionals be deployed to the Priority Health Care Precincts identified by the Ministry based on the ratio of health personnel to inhabitants by virtue of *Arrêté* 2018/041.

Objective

4.51 **The third pillar of the proposed operation will support the Government's efforts to improve access to education and health services.** This pillar addresses a key constraint to more equitable access of Beninese adults and children to quality education and health, particularly for disadvantaged populations. Although Benin has recorded progress in access to better education and health services over the past decade, significant variations persist depending on income groups and locations, with poorer and isolated communities accessing fewer services. One of the key issues has been the assignment of sufficient and qualified teachers and health workers to underserved communities.

4.52 **The measures supported under this pillar address the geographically uneven deployment of qualified primary teachers and health care workers**. In particular, the prior actions supported under this pillar consist in Government adoption and implementation of a transparent set of criteria for the deployment of newly recruited teachers and health care staff, which favor underserved geographic areas.

Background

4.53 **Although access to education and health services has increased over the last decade, overall availability and quality vary considerably by region and income groups.** Overall, access and quality of social service delivery, and their outcomes, are substantially lower in rural areas, particularly where poverty levels are high. For example, learning achievements assessments of second grade and fifth grade students carried out during the 2016-2017 school year found the following: for second graders, the average scores for French and Math were 20.8 and 28.1, respectively, in urban areas compared to 13.7 and 21.4 in rural areas; for fifth graders, the average aggregate score (French and Math) was 18.3 points in urban areas compared to 11.8 in rural areas.

4.54 **Among the factors that contribute to such disparate human development outcomes is the uneven distribution of qualified staff in the education and health sectors.** Empirical evidence shows that classroom overcrowding is identified as an important cause of poor learning outcomes in several African countries.[26] Similarly, there are studies showing that the density of human resources for health is an important factor in accounting for the variation in rates of maternal mortality, infant mortality, and under-five mortality across countries.[27] The Global Partnership for Education[28] recommends that the average primary education pupil-teacher ratio should be lower than 40: it is over 60 in Benin. Most importantly, this statistic does not capture the considerable disparity across the country, with rural communes, usually much poorer, having significantly higher ratios. In 2016, the commune of Grand Popo in the Mono Department) had the lowest pupil/teacher ratio (44.4), whereas Kandi in the Atacora department had the highest (116.0). The health sector records similar gaps. Overall, the average number of key public health workers (doctors, nurses and midwives) per 10,000 inhabitants in Benin is 3.6 (7.2 if private health workers are included).[29] As is the case with the education sector, the distribution of health workers is uneven. There are 1.8 key health workers per 10,000 inhabitants in the Aplahoué-Djakotomey-Dogbo health zone (Couffo Department) and 6.5 in the Lokossa-Athiémè zone (Mono Department). The distribution of key health workers is skewed such that 83 percent of the total Benin population live in health zones where the ratio of health workers to inhabitants is below the national average.

4.55 After a hiatus of several years, the Government has resumed recruiting education and health staff but significant geographic disparities remain. Although overall shortages have eased slightly, the deployment of these new staff has had little impact on geographic disparities. For example, the Government recruited and deployed 3,457 primary school teachers across the country for the 2016-2017 school year, reducing the national pupil-teacher ratios (PTR) from 70.1 to 64.3. While the majority (65 percent) of these teachers were assigned to those communes that had a primary pupil-teacher ratio above the national average, greater effort is needed as geographic disparities remain high. In the health sector, the health personnel deployment strategy has been less effective as only 31 percent of newly recruited key health personnel were deployed to Priority Health Precincts[30] in 2018.

4.56 These continued disparities, despite the availability of additional staff, are in part due to the absence of official standards and regulations to guide staff assignment. Deployment decisions are taken by sector authorities at the national and Departmental level, without use of a set of standardized and consistent criteria. For example, the 2018 cohort of newly recruited health care workers were deployed to the 12 Departments, based on replacement needs (e.g., retirement, transfers, leave) and other Department-defined preferences. There are two principal shortcomings to this approach. First, using the Department as a unit of analysis did not provide the granularity necessary to target the neediest geographic areas. Second, there are no accountability mechanisms in place to ensure that deployment decision made by Departmental authorities were consistent, transparent and sufficiently justified.

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[26] Jones, S. 2016. How does classroom composition affect learning outcomes in Ugandan primary schools? *International Journal of Educational Development* 48 (2016), pp. 66–78; PASEC. 2003. *Le programme de formation initiale des maitres et la double vacation en Guinée*. Report.

[27] Anand, S and T. Bärnighausen. 2004. Human resources and health outcomes: cross-country econometric study. *The Lancet* Vol 364, Issue 9445, 30 October–5 November 2004, Pages 1603-1609. https://doi.org/10.1016/S0140-6736(04)17313-3.

[28] The Global Partnership for Education (GPE) is a multi-donor trust fund that supports country efforts to ensure universal access to basic education. Based on country specific analyses and a set of cross-country standards, the GPE determines the eligibility of specific countries to grants to meet certain education objectives. Benin has received two grants from the GPE.

[29] This is well below what would be recommended by the World Health Organization (25 health agents per 10,000 inhabitants). How quickly it will take to meet this objective in Benin depends on the number of health workers that can be recruited.

[30] Priority Health Precincts are defined as the eight Health Precincts (out of 34 Health Precincts) with the lowest ration of personnel to inhabitants.

Prior actions

4.57 **The Government has committed to deploy all newly recruited primary education teachers to underserved communes, starting with the 2018-2019 school year (Prior Action #9).** The Government will reduce cross-commune disparities by deploying newly recruited primary education teachers to those communes where the primary education pupils/teacher ratios (PTRs) are the highest. The Government has set a long-term objective that all communes would have an average PTR of less than 50. The new deployment policy will allow to gradually achieve this target over time, considering the availability of new recruits every year (driven by broader public finance and public civil service considerations and policies). Regardless of the size of the cohort of new teachers, the Government intends to continue to deploy newly recruited teachers to underserved communes in subsequent years.

4.58 **To achieve this objective, the Government has officially adopted a new methodology to guide teacher deployment going forward.** The methodology consists of two steps. First, it calculates the national PTR for the 2018-2019 school year and the PTR of each commune for the 2017-2018 school year. The projected national PTR takes into consideration the 3,601 primary teachers that the Government has already recruited for the 2018-2019 school year, but have yet to be deployed[31]. The specific PTR of each commune is then calculated and those with a PTR below or equal to the national average are considered relatively well endowed and will not receive any new teachers. Based on this approach, out of 77 municipalities, 54 are eligible for more teachers in the 2018-2019 school year. The second step is to determine the number of teachers that should be deployed to each eligible commune. Eligible communes are separated into three groups and a target PTR is set for communes in each group based on the relative needs. Subsequently, the number of teachers needed for each eligible commune to meet the targets is calculated and will serve as a guide for the deployment of teachers already recruited for the 2018-2019 school year. The same methodology will be used to deploy teachers for the subsequent school years.

4.59 **Similarly, the Government has committed to deploy 80 percent of newly recruited key health care professionals[32] to Priority Health Precincts, starting in 2019 (Prior Action #10).** The Government will reduce geographic disparities by ensuring that Priority Health Precincts will receive most newly-hired personnel. To achieve this objective, the Ministry of Health has developed a new methodology for deploying key health personnel in Priority Health Precincts. The methodology first determines which precincts should be designated as a Priority Health Precinct. Out of the 34 precincts, 26 have a ratio of key health personnel/10,000 inhabitants that is below the national average. These precincts cover 83 percent of the total population of the country and thus cannot all be considered Priority Health Zones. Consequently, the Government has decided to define as Priority Health Precincts the eight precincts which have the lowest ratio of health personnel to inhabitants. The methodology then determines the number of key health personnel to be deployed in each Priority Health Precinct based on the relative needs of each Precinct (the Precincts with the highest needs obtaining a larger share of the newly recruited health personnel). Every two years, the Government will re-assess the selection of Priority Precincts using these same criteria described above.

[31] Once the new teachers are assigned to schools, the national PTR will decline from 63.4 in school year 2016-2017 to 56.3 for 2018-2019.
[32] Key health care professionals include general physicians, nurses, and midwives.

Expected Results

4.60 **The reforms supported under this pillar are expected to improve access to education and health services in an equitable manner through a more effective deployment of newly recruited education and health personnel**. It is expected that at least 90 percent of primary school teachers recruited in 2019 will be deployed to communes with a PTR above the national average and distributed according to its new official methodology. Following the application of this methodology, the difference between the commune with the highest PTR (Kandi with 118) and the national PTR is expected to decline significantly from 54.9 to 6.3. Significant improvements are expected also with respect to the health sector as the percentage of newly recruited key health personnel deployed to the eight Health Precincts with the highest need is expected to increase from 31 percent in 2018 to 70 percent in 2019. While expected results of the measures supported are significant, addressing the issue of access to quality education and health services in underserved communities requires a gradual and multi-dimensional strategy. By officially adopting norms for the initial deployment of teachers and health personnel, the government puts in place the first part of this strategy. The next step would be to provide incentives to keep qualified personnel in underserved areas for a minimum period. In this context, it is key to keep promoting the policy dialogue with authorities and supporting them to address this development challenge.

Table 4.1: DPF Prior Actions and Analytical Underpinnings

Pillars	Analytical Underpinnings
1. STRENGTHENING FISCAL MANAGEMENT	**Policy Note on Fiscal Policy (2016)** • Strengthening the mobilization of revenues and increase the efficiency of expenditures is key to promote inclusive growth in Benin **Benin Fiscal Policy: General, Informal and Mining Sectors Taxation (2015)** • Direct fiscal expenses in the form of corporate tax exemption are estimated at 0.3 percent of GDP in 2012, the bulk of which benefits mobile Telecommunication companies. Indirect exemptions (e.g. in the form of foregone VAT on imports of computer equipment and power generators) amounted to 1.3 percent of GDP in 2013. **Analysis of tax expenditures: IMF Technical Assistance Report (2018)** • Exemptions tend to attract companies that engage in fiscal optimization and are therefore unlikely to contribute to growth durably. **Complementary Bank Operations and TA:** **Community Driven Decentralized Services** **Wage Bill TA (FY14).**

2A. INCREASE AGRICULTURAL PRODUCTIVITY AND VALUE ADDITION	**Policy Notes on Cotton and Agriculture (2016)** • To promote structural transformation of the agriculture sector in Benin, there is need to put emphasis on (i) the improvement of governance and the institutional environment for the sector; (ii) the diversification of export products and the promotion of quality and food processing; (iii) improvement of research and transfer of technology for increased productivity and value addition; and (iv) improving access to inputs (seed, fertilizer, pesticides...), to markets of agricultural products; **Benin: Sustainable Options for Agricultural Diversification (2011)** • The agricultural sector in Benin faces several key problems that undermine its development. The most prominent of these problems are the traditional means of production available to the vast majority of small scale farmers and their limited access to investment resources and professional knowledge. They have difficult access to improved technology, farm equipment and finance as well as poor access to markets and inadequate applied research and extension services. **Diagnostic Trade Integration Study Update (2015)** • Based on its core diagnosis, the DTISU emphasizes as a priority an agricultural reform aimed at the provision of a stable institutional environment, the elimination of cross-cutting constraints (including deficient SPS infrastructure and logistics), and the promotion of non-traditional export crops. The rapid rise of pineapple and cashew production and export demonstrates that diversification into non-traditional export products is possible. **Complementary Bank Operations and TA:** **Agricultural Productivity and Diversification Project.** **West Africa Agricultural Productivity Program (WAAPP).** **Cotton Sector TA (FY2014).**
2B. STRENGTHEN THE POWER SECTOR'S FINANCIAL VIABILITY	**Policy Note on Energy (2015)** • The weakness of Benin electricity sector's financial viability is a bottleneck to the sector's development. **Study Payment Discipline and Securitization (P165951)** • Improvement of the financial viability of electricity utilities is a prerequisite for payment securitization **Complementary Bank Operations and TA:** **Energy Service Improvement Project (P161015).** **Increased Access to Modern Energy Project (P110075).**

3. IMPROVE EQUITABLE ACCESS TO EDUCATION AND HEALTH SERVICES	**Benin Systematic Country Diagnostic (2017)** • By 2030, Benin will need 1.7 times the number of primary school teachers, 4 times the number of secondary teachers, 5 times as many higher education instructors, 5 times as many doctors, and 2 or 3 times the number of nurses. **State of the Education System in Benin (GoB and UNESCO, 2017)** • Only 54 percent of the variability in the number of teachers across schools is explained by the variability in the number of pedagogical areas in these schools. • The relationship between the number of students to number of teachers is less than 50 percent, indicating the existence of a degree of randomness in terms of teachers allocation. **Complementary Bank Operations and TA:** **Benin Multi-sectoral Food Health Nutrition Project (P143652)** **Benin Global Partnership for Education Project Phase 3 (P167432)** **Health System Performance Project (P113202)**

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

4.61 **DPFs are a key instrument in the World Bank Group's (WBG) ongoing policy dialogue with the Government of Benin and its development partners.** The WBG Country Partnership Strategy (CPS) for FY2013-2017 (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 WBG Country Partnership Framework (CPF) for FY2019-FY2023 (Report No. 123031-BJ) explicitly includes the current DPF series as a key IDA instrument for supporting Benin's structural transformation for competitiveness and productivity and notes that development policy operations (including the proposed operation) will target domestic revenue reforms designed to reduce Government reliance on revenues generated from imports informally re-exported to Nigeria.

4.62 **The FRG series addresses the recommendations from the recently completed PLR[33], which reviewed CPS progress.** The PLR noted the need for: (a) development policy financing 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.

4.63 **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$35 million , P122065 and P158983); the Agricultural Productivity and

[33] Report No. 106266.

Diversification Project (PADA, US$71 million, P115886 and P160029); the Public Investment and Governance Support Project (US$30 million, P147014); the Benin Multi-sectoral Food Health Nutrition Project (P143652), the Benin Global Partnership for Education Project Phase 3 (P167432), the Health System Performance Project (P113202), and the Benin Energy Sector Improvement Project (US$65 million, P161015), among others. Furthermore, the recently completed PLR, which extended the CPS for an additional year, and the forthcoming Country Partnership Framework (CPF 2018-2023) identified the need for new investments and reforms in agriculture as a priority – an area supported under this series.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

4.64 There is good collaboration among development partners in Benin. This is particularly true for development policy financing, though the number of donors providing development policy financing 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 DPF series and this consultative process has informed its design. Some of the measures under this series are also supported by the IMF, the African Development Bank (AfDB), the European Union, and Millennium Challenge Corporation (MCC).

4.65 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 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. This process is undertaken in a very open and transparent manner. In addition, the World Bank itself directly engages the broader community in Benin.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

5.1 The FRG series is expected to have a positive impact on poverty reduction through different channels. Some of the measures supported will have a mostly indirect impact through stronger fiscal management, improved public spending efficiency and productivity gains as well as job creation in the agricultural and non-farm sectors. This impact has been strengthened by the inclusion of the third pillar on human capital development that could have both a direct and indirect influence on the level and distribution of poverty.

5.2 **Prior Actions 1, 2 and 3 support measures to strengthen fiscal management.** These measures 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 and interventions to raise the productivity of poor households, a direct contribution to poverty reduction and improved quality of life. As noted, the failure of growth to lead to poverty reduction in Benin largely reflects the lack of high productivity, high wage and secure employment opportunities. Fiscal and debt sustainability, and the macroeconomic certainty it engenders, along with improved delivery of public services will encourage and foster more inclusive economic growth.

5.3 Prior actions 4, 5, and 6 focus on increasing agricultural productivity 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 noted previously, limited agricultural growth (around 3.5 percent per year, which is approximately the rate of population growth in the country) has not contributed enough to poverty reduction. The development of value chains and diversifying production into more valuable crops should boost incomes of households involved in agriculture.

5.4 Prior actions supported in the power sector pillar (Prior actions 7 and 8) promote reliable access to electricity and a more cost-effective electricity provision and should have a direct and positive impact on the poor. 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. The PSIA carried out in the context of FRG1 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. Also, the financial viability of the power sector 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 for 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. Given the relatively high level of electricity tariffs in Benin, SBEE confirmed that retail tariffs would not be increased to compensate for the wheeling charge. Instead, SBEE will try to reduce losses (for example, by launching the roll-out of smart energy meters supported by the DPF) and the Government would provide a subsidy at the end of the year to cover the remaining gap.

5.5 **Prior action 9 supports equitable access to education services and is expected to have indirect positive effects on poverty reduction.** Schools quality play a determinant role in education outcomes. The 2017 SCD concluded that low human capital contributes to income inequality, undermines long term economic growth and the prospects of the poor to realize shared prosperity. Improving school quality (through lower pupil to teacher ratios) is likely to improve learning outcomes and increase grade attainment. As education outcomes improve for the poor, they will have better job opportunities that offer higher earnings and security.

5.6 **Prior action 10 supports equitable access to health services through the deployment of new health workers to underserved areas**. Providing affordable health care service to the poor remains a challenge in Benin particularly in the rural areas. Addressing health care needs of the poor requires a multidimensional strategy integrating availability of health services, their quality, and financial accessibility.

5.2. ENVIRONMENTAL ASPECTS

5.7 **The reforms and policy actions supported by the proposed operation are not likely to have significant negative impacts on the country's environment, forests and other natural resources.** In addition, all the potential environmental and social adverse impacts associated with activities supported by the current DPF will rely on the existing National legal and regulatory framework and will subsequently be monitored and addressed through the national procedures in place in Benin. Over the last 20 years, the Government has made significant strides in mainstreaming environmental sustainability in projects. Environmental and Social Impact Assessment (ESIA) 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.

5.8 **In July 2015, the existing ESIA decree was reviewed, approved and adopted by the Government.** The new ESIA decree is Decree N° 2015-382 of July 9, 2015. It is a harmonized decree that covers environmental assessments, 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 all the environmental and social safeguards instruments among which the ESIAs, Audits, RAP; and to provide certificates of environmental conformity. It is also one of the reference environmental protection agencies in the West and Central Africa region. However, it faces some difficulties in terms of number of qualified staff, meaning they could not participate in all missions with clients, lack of vehicles for field visits missions and lack of fund to pre-finance their missions.

5.9 **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 directly support environmentally impactful investments or involve policy actions with significant environmental consequences.

5.10 Prior actions designed to strengthen economic competitiveness are also largely environmentally neutral. Strengthening the financial viability of the power sector is essential to promote increased access to electricity in Benin. The adoption of a wheeling charge and the roll-out of smart energy meters are likely to produce climate change mitigation co-benefits since they help reduce losses and promote a more efficient use of energy. In the agricultural sector, measures intended to diversify agriculture away from a reliance on cotton could have a potentially positive environmental effect[34]. Climate smart agriculture principles are at the core of the government strategy and guidelines on how to mainstream climate smart agriculture issues into research, extension, projects and programs have been prepared. In this context, climate smart practices will be part of the service packages to farmers offered by private sector extension service providers. The associated performance indicators will be included in the tripartite MOU/Contract Agreements to be signed between the Ministry of Agriculture, Producers' organizations and private sector service providers. 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.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.11 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 from 2010 to 2014 have been cleared by the *Chambre des Comptes*. These annual audit reports were submitted to the National Assembly. 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. Following the 2014 PEFA and 2014 PEMFAR, the Government initiated a revision of the 2009 procurement code given the identified weaknesses. The new code has been adopted by the National Assembly in September 2017 and promulgated by the Government in October 19, 2017. The Government also requested a Public Investment Management Assessment (PIMA) and a PIMA mission has been carried out in October 2017.

5.12 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

[34] Cotton cultivation leads to a relatively rapid depletion of soils and chemical products used in cotton growing pollute surface water and groundwater.

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.

5.13 **A safeguards assessment of the BCEAO was completed in 2018.** The 2018 assessment, conducted on a four-year cycle for regional central banks, found that the BCEAO continues to maintain a strong internal control environment. Key recommendations from the last assessment in 2013 have been implemented. BCEAO adopted International Financial Reporting Standards (IFRS) in 2015 and the selection criteria for the external auditors has been strengthened. The audited financial statements in the period since the last assessment have had unmodified (clean) audit opinions and are published on a timely basis.[35]

5.14 **Audit reports produced by the *Chambres des Comptes* on financial flows related to donor development policy financing confirm amounts disbursed by IDA** to the country under previous DPL operations.

5.15 **The proposed operation would consist of a single-tranche development policy credit of EURO 12.9 million (equivalent to US$15 million) and a policy-based guarantee of up to EURO 154.8 million (equivalent to US$180 million)**. The Recipient is the Republic of Benin, represented by the Ministry in charge of Economy and Finance. The proposed Credit would follow IDA's disbursement procedures for development policy operations and would not be linked to specific purchases. The disbursement of credit proceeds and the signing of the guarantee would be subject to satisfactory implementation of the development policy program and maintenance of a satisfactory macroeconomic framework. The Government would draw down on the financing raised with the help of the PBG following successful conclusion of negotiations among the Government, the lenders and IDA of the agreements providing for the financing and satisfaction of all conditions precedent for the disbursement of the financing and the PBG, including payment of the applicable fees to IDA for the provision of the PBG. IDA would only make a payment under the PBG if the Government failed to make a guaranteed payment to the lenders on its commercial financing and IDA received an appropriate demand on behalf of the lenders for payment under the PBG.

5.16 **Proceeds of the IDA Credit.** 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 of the IDA Credit 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

[35] Reference to the BCEAO Safeguards Assessment and the wording and statements provided in paragraph 5.16 are as provided by the IMF in its Country Report No. 18/106. The World Bank has been unable to verify these statements or confirm their accuracy.

be June 30, 2019. The deposit accounts may be audited on terms of reference acceptable to IDA should IDA determine that such an audit is necessary.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

5.17 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.

5.18 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.

5.19 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 AND MITIGATION

6.1 The overall risk level associated with this operation is substantial. Substantial governance, institutional capacity, and macroeconomic risks could adversely impact the achievement of 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 substantial. Several factors could negatively affect the objective of strengthening fiscal management. Lower than expected growth, poor economic performance in Nigeria and commodity price shocks could affect the Government's capacity to boost domestic resource mobilization. Low revenue mobilization could affect the objective of improving equitable access to education and health services as the Government might not have resources to hire teachers and health personnel. Vulnerabilities in the financial sector – including the high level of non-performing loans – could adversely impact private investment. Commodities price shocks could have a negative impact on the productivity of the agricultural sector and the financial viability of the power sector. Some of these macroeconomic risks are partially mitigated by the prior actions supported under this series. The recently approved ECF program and the on-going policy dialogue with the World Bank and IMF on macroeconomic, structural and PFM issues also mitigate these risks.

6.3 **Political and governance risks are considered substantial**. Lack of certainty regarding political and governance developments creates a substantial risk. A deterioration in the political environment could negatively affect the efforts to boost revenues and increase the efficiency of public expenditures. It could create uncertainty and discourage private investments, with a negative impact on the productivity of the agricultural sector. These risks are partially mitigated by the policy dialogue between WB and authorities, the measures supported under this series, and the existing IMF ECF-supported Program. The GAP noted that "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. Vested interests could also affect the implementation of measures aimed at strengthening the financial viability of the power sector, such as the roll out of Smart Energy Meters for large private consumers. This risk is partially mitigated by the Government's commitment to support this measure and by complementary WB operations, such as the Energy Service Improvement Project (P161015).

6.4 **Substantial implementation and sustainability risks arise from capacity constraints and weaknesses in public administration that may hinder the implementation of the 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, including in the social sectors; (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 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.

6.5 **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 development policy financing 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 Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Low
8. Stakeholders	Low
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPF 1	**Prior Actions for DPF 2**	**Indicator Name**	**Baseline**	**Target**
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 # 1. In order to reduce tax expenditures, the Recipient's Ministry of Economy and Finance has notified cell phone companies that the tax exemptions granted previously to said companies will not be renewed.	Tax expenditures associated with tax exemptions granted to cell phone companies.	Baseline (2016): FCFA 17.5 billion Current (2017): FCFA 9.9 billion	Target (2019): less than FCFA 1 billion
Prior Action #2. To strengthen evidence-based policy making, the MEF has established the Tax Policy Unit within its structure.				
Prior Action #3. 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 # 2. In order to simplify tax collection, the Recipient's Ministry of Economy and Finance has launched a new system for the electronic reporting of corporate taxes and has required all large firms to use said system.	Share of non-customs taxes paid through the banking system or the e-payment system.	Baseline (2016): 0 percent Current (2017): 22 percent	Target (2019): more than 65 percent
AREA B: IMPROVE THE EFFICIENCY OF PUBLIC SPENDING				
Prior Action 4: To enhance the accuracy of the Recipient's public payroll, the MEF has carried out a satisfactory staff census on all	Prior Action # 3. In order to enhance the accuracy of the Recipient's public payroll, the Recipient's Ministry of Labor and Public	Percentage of civil servants' salaries and benefits processed through the unified wage	Baseline (2017): percent Current (2017):	Target (2019): more than 90 percent

Prior actions and Triggers		Results		
public-sector employees, including civil servants, military, police officers, and pensioners.	Function (MTFPAS) and the Ministry of Economy and Finance (MEF) have unified the wage management system by harmonizing and linking the MTFPAS database of civil servants with the MEF database used to pay civil servants' salaries, benefits, and other monetary compensation.	management system.	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): percent Current (2017): 60 percent	Target (2019): more than 80 percent
Pillar 2--- **INCREASE AGRICULTURAL PRODUCTIVITY AND STRENGTHEN THE POWER SECTOR'S FINANCIAL VIABILITY**				
AREA A: INCREASE 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 # 4: In order to promote agricultural research, the Recipient's Council of Ministers has adopted the National Program for Agricultural Research (NPAR) and the National Institute for Agriculture Research (INRAB) has launched agro-ecological zone-specific research activities.	Number of agro-ecological zone-specific experiments launched.	Baseline (2017): 0 Current (2017): 0	Target (2019): more than 15
Prior Action 7: To enhance access to credit in the agricultural sector, the Recipient's Council	Prior Action # 5: In order to promote larger scale adoption of improved technology in	Moving average (three years) of the quantity (tons) of processed	C - Baseline (2016): 5600,	Target (2019): 8500;

Prior actions and Triggers		Results		
of Ministers has created the FNDA with a mandate to promote private investments in the agricultural sector.	the agriculture sector, the Recipient's Council of Ministers has adopted the National Agricultural Extension Strategy (NAES) that promotes the delivery of extension services by private operators.	cashew (C), processed pineapple (P), and processed rice (R).	Current (2017): 7600, P - Baseline (2016): 52000, Current (2017): 81000, R - Baseline (2016): 33300, Current (2017): 52000	Target (2019): more than 100000; Target (2019): 69500.
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).	Prior Action # 6: In order to increase and monitor the quality of agricultural products, the Recipient has adopted a National Policy for Quality and started to implement its Action Plan for food quality and safety in the agriculture sector by defining quality standards for pineapple.	Share of cashew (C) and pineapple (P) samples tested by LCSSA which meet international standards.	C -Baseline (2017): 88.6 percent P -Baseline (2017): 88.1 percent	Target (2019): more than 90 percent Target (2019): more than 90 percent
AREA B: STRENGTHEN THE POWER SECTOR'S FINANCIAL VIABILITY				
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.	Prior Action # 7: In order to support the financial viability of the power sector, the Inter-State High Council for CEB has adopted a wheeling charge of FCFA 10 per kWh to compensate the bi-national utility CEB on the use of the transmission networks to transit energy to SBEE.	SBEE's arrears with CEB.	Baseline (July 2017): CFAF 39.2 billion Current (end 2017): CFAF 25.5 billion	Target 2019: less than CFAF 10 billion

Prior actions and Triggers		Results		
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.	Prior Action # 8: To improve SBEE revenue collection, SBEE's Board of Directors has approved the roll out of Smart Energy Meters for large consumers under the Revenue Protection Program to reduce commercial losses.	SBEE's revenue collection rate from all public-sector institutions. Percentage of revenue protected through the installation of smart energy meters for large consumers.	Baseline (2016): 5 percent Current (end 2017): 45 percen Percentage of revenue protected: Baseline (2017): 0 percent Current (2017): 0 percent	Target (2019): more than 50 percent Target (2019): more than 40 percent
***Pillar 3---* IMPROVE EQUITABLE ACCESS TO EDUCATION AND HEALTH SERVICES**				
	Prior Action # 9: In order to improve equitable access to education services, the Recipient's Ministry of Pre-School and Primary Education has required all newly recruited primary teachers to be deployed to communes where the pupils/teacher ratio is higher than the current national average.	Percentage of newly recruited teacher deployed in communes with pupils/teacher ratio higher than the national average.	Baseline (2016): 65 percent Current (2017): N.A.	Target (2019): more than 90 percent
	Prior Action # 10: In order to improve equitable access to health services, the Recipient's Ministry of Health has required that at least 80 percent of newly recruited key health care professionals be deployed to the Priority Health Care Precincts identified by the Ministry based on the ratio of health personnel to inhabitants	Percentage of newly recruited health personnel deployed in Priority Health Precincts.	Baseline (2017): 31 percent Current (2017): 31 percent	Target (2019): more than 70 percent

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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LETTRE DE POLITIQUE DE DEVELOPPEMENT

Juillet 2018

INTRODUCTION

1. La présente lettre de politique de développement rend compte des progrès réalisés par le Bénin au plan économique et social au cours de ces dernières années et des politiques que le Gouvernement envisage de mettre en œuvre pour stimuler l'essor économique et consolider les progrès de développement avec le programme d'appui budgétaire général pour les réformes fiscales et la croissance (FRGC en anglais) pour lequel il sollicite un appui de la Banque Mondiale.

2. Les principales mesures de cette deuxième opération (FRGC2) 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 sept 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 diminua avec un taux de croissance estimé à 2,1%. 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 favorisées par 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.

6. En avril 2016, une nouvelle dynamique de l'action publique a été lancée avec la vision prônée par le Gouvernement de « relancer de manière durable le développement économique et social du Bénin » à travers le Programme d'Actions du Gouvernement (PAG) sur la période 2017-2021 dénommé " Bénin Révélé".

7. Dans cette perspective, le Bénin a lancé le processus d'élaboration d'un Plan National de Développement (PND) 2018-2025 et de son premier document d'opérationnalisation, le Programme de Croissance pour le Développement Durable (PC2D) 2018-2021. Ce dernier Programme 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.

8. Le PC2D est un document qui est élaboré en lieu et place de la Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP). Il est le document de dialogue avec les Partenaires Techniques et Financiers (PTF) dans le cadre des différents programmes économiques et financiers. Il est en parfaite cohérence avec le Programme d'Actions du Gouvernement et vise l'atteinte des Objectifs de Développement Durable (ODD).

9. Au total, sept (07) axes opérationnels sont déclinés pour encadrer la mise en œuvre du Programme de Croissance pour le Développement Durable 2018-2021 et comprennent : (i) le renforcement des bases de la démocratie et de l'Etat de droit, (ii) l'amélioration de la gouvernance, (iii) l'assainissement du cadre macroéconomique et le maintien de la stabilité, (iv) l'amélioration de la croissance économique, (v) l'amélioration des performances de l'éducation, (vi) le renforcement des services sociaux de base et protection sociale et (vii) le développement équilibré et durable de l'espace national.

10. En matière de gestion du cadre macroéconomique, il faut noter que 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 s'est engagé à 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.

11. 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

12. Les réformes retenues dans le programme associé au FRGC 2 pour lequel le Gouvernement sollicite l'appui de la Banque Mondiale au titre de l'année 2018 portent sur : (i) le renforcement de la gestion budgétaire, (ii) l'amélioration de la productivité et de la compétitivité agricole et de la viabilité financière du secteur de l'électricité, et (iii) l'amélioration des prestations des services sociaux.

Renforcement de la gestion budgétaire

13. Dans le PC2D, les actions prioritaires retenues pour l'assainissement du cadre macroéconomique et le maintien de sa stabilité comprennent, entre autres, la maîtrise du déficit budgétaire et de l'endettement, la stabilité du cadre macroéconomique et le renforcement de la réforme du système de gestion des finances publiques. Pour ce faire, le Gouvernement a retenu comme domaines prioritaires du FRGC 2, (1) le renforcement de la mobilisation des ressources publiques domestiques et (2) l'amélioration de l'efficience des dépenses publiques.

14. En ce qui concerne le renforcement de la mobilisation des ressources publiques domestiques, le Gouvernement a retenu au nombre des priorités : (i) le non renouvellement des exonérations fiscales au profit des compagnies de téléphonie cellulaire et (ii) la mise en place d'un nouveau système pour la déclaration électronique des impôts et taxes, et son utilisation par toutes les grandes entreprises.

15. S'agissant de l'amélioration de l'efficience des dépenses publiques, les efforts entrepris par le Gouvernement ont consisté à l'unification du système de gestion des salaires en harmonisant et reliant les logiciels de base de données des agents de l'Etat du Ministère du Travail et de la Fonction Publique et la base de liquidation et de mise en paiement des salaires, soldes et accessoires des agents civils de l'Etat tenue par le Ministère de l'Economie et des Finances.

Amélioration de la compétitivité agricole et de la viabilité financière du secteur de l'électricité

16. Au titre des interventions prévues dans le PC2D, le Gouvernement a retenu dans l'axe opérationnel relatif à l'amélioration de la croissance économique, l'amélioration de la production, de la productivité des filières agricoles et de leur compétitivité ainsi que le renforcement de l'énergie. En particulier, le Gouvernement entend œuvrer prioritairement pour l'amélioration de la compétitivité agricole et de la viabilité financière du secteur de l'électricité dans le cadre du FRGC 2.

17. S'agissant de l'amélioration de la compétitivité agricole, les principales actions retenues pour le compte du FRGC 2 ont porté sur (i) l'adoption du Programme national de recherche agricole (PNRA) et le lancement des activités de recherche action dans les 15 sites expérimentaux représentatifs des pôles de développement agricole, (ii) l'adoption d'une politique nationale pour la qualité et le démarrage de la mise en œuvre du plan d'action pour la qualité et la sécurité des aliments dans le secteur agricole en définissant les normes de qualité pour l'ananas et le karité qui répondent aux normes internationales et (iii) l'adoption d'une Stratégie Nationale de Conseil Agricole (SNCA) qui implique les prestataires privés dans sa mise en œuvre.

18. Par rapport au renforcement de la viabilité financière du secteur de l'électricité, les efforts ont consisté à (i) l'introduction de la redevance de 10 FCFA / kWh par le Haut Conseil Inter-Etatique pour compenser la compagnie publique binationale, CEB, sur l'utilisation des réseaux de transport pour acheminer l'énergie vers la SBEE (et vers CET) et (ii) l'approbation par le Conseil d'administration de la SBEE du déploiement de compteurs d'énergie intelligents pour les grands consommateurs qui sont dans le Programme de Protection de Recettes. En ce qui concerne le déploiement des compteurs d'énergie intelligents pour les grands clients consommateurs, le Gouvernement du Bénin s'est engagé à soutenir cette mesure par une résolution du Conseil des Ministres d'ici fin 2018.

Amélioration des prestations des services sociaux

19. Dans le PC2D, l'axe opérationnel relatif à l'amélioration de la performance de l'éducation prévoit, entre autres, le renforcement des acquis du Plan Décennal de Développement du Secteur de l'Education (PDDSE) 2006-2015 et la promotion d'une éducation de base holistique, inclusive et de qualité. De plus, l'axe opérationnel portant sur le renforcement des services sociaux de base et de protection sociale prévoit l'amélioration de la performance du système sanitaire.

20. Dans cette perspective, au nombre des mesures visant à améliorer les prestations des services sociaux au titre de l'année 2018, le Gouvernement a retenu (i) l'adoption d'une nouvelle méthodologie au niveau de l'enseignement primaire pour identifier les Communes mal desservie du pays et a pris un arrêté pour affecter la totalité des nouveaux enseignants dans ces zones et (ii) l'adoption d'une nouvelle méthodologie dans le secteur de la santé pour identifier les zones sanitaires prioritaires et la prise d'un arrêté pour affecter 80% du nouveau personnel de santé (médecins, infirmiers, sages-femmes) dans ces zones.

21. Le Gouvernement s'engage à mettre en œuvre ces actions de réformes qui faciliteront l'atteinte des résultats de son Programme de Croissance pour le Développement Durable (PC2D) 2018-2021, de son Programme d'Action ainsi que la réussite du programme associé au FRGC 2. 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

22. 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.

23. 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.

16 JUIL. 2018

Romuald WADAGNI
Ministre de l'Economie et des Finances

Letter of Development Policy – Unofficial translation

INTRODUCTION

1. This development policy letter reports the economic and social progress made by Benin during recent years and presents the policies that the Government of Benin intends to implement going forward to spur economic growth and development with the support of the World Bank, particularly under the Fiscal Reform and Growth Credit (FRGC).

2. The main objectives of the second Fiscal Reform and Growth Credit (FRGC2) are to: (i) support the efficiency of public spending aimed at improving services delivery to the most vulnerable populations; and (ii) create and maintain the conditions for a sustained growth and significant poverty reduction.

3. Subsequently, the presentation focuses on the following aspects: (i) the context and recent developments in the economy; (ii) the reforms envisaged; and (iii) the coordination and monitoring of the reforms implementation.

I – Context and recent developments

4. The government of Benin has implemented the Growth Strategy for Poverty Reduction (GPRS 2011-2015) as part of its development policy during the recent years. This strategy is the third generation of its kind and its objectives are to: (i) accelerate economic transformation and growth; (ii) develop infrastructure; (iii) reinforce human capital; (iv) promote good governance; and (v) spur a balanced and sustainable economic development.

5. An evaluation of the GPRS 2011-2015 suggests that economic activity has strengthened from 2011 to 2013 and slowed down slightly in 2014. The real GDP growth rate was 6,5% in 2014 and 6.9% in 2013. In 2015, economic activity weakened considerably with a GDP growth rate estimated at 2.1%. In 2016, the GDP growth rate rebounded at 4.0%, a sharp rise compared to 2015 that is attributable to exceptional harvests and favorable weather conditions. Unfortunately, the policies implemented during the period 2011-2015 have not led to a reduction in poverty: income poverty rate jumped from 37% in 2011 to 40.1% in 2015.

6. In April 2016, a new orientation of the public action has been advocated by the Government with the purpose of *"reviving sustainably the economic and social development of Benin"* through the Government Action Plan (PAG or "*Programme d'Action du Gouvernement*", also known as "*Benin Revealed*") for the period 2017-2021.

7. In this context, Benin has launched the elaboration of a National Development Plan (PND 2018-2025) and its first operationalization document, the Program for Growth and Sustainable Development (PC2D 2018-2021). The latter Program also contributes to the implementation of the 2030 Agenda on the Sustainable Development Goals (SDGs) and the 2063 Agenda of the African Union.

8. The PC2D is a document developed in lieu of the Growth Strategy for Poverty Reduction (GSPR). It serves as framework for conducting policy dialogue with the Technical and Financial Partners (TFP). It is fully consistent with the Government's Action Plan and is aimed at contributing to the achievement the Sustainable Development Goals (SDGs).

9. The implementation of the Program for Growth and Sustainable Development (PC2D 2018-2021) is monitored along seven (07) operational axes in total: (i) reinforcement of democracy and the rule of law; (ii) improvement of governance; (iii) consolidation of the macroeconomic framework and stability; (iv) stimulation of economic growth; (v) improvement of the education system performance; (vi) improvement of public services delivery and social protection; and (vii) spurring of a balanced and sustainable development of the economy.

10. Regarding the macroeconomic management, it should be noted that the Government of Benin is committed since 2017 with the International Monetary Fund (IMF) on a three-year reform program under the Extended Credit Facility (ECF) approved by the IMF Board on April 07, 2017. Under this program, the Government of Benin committed to implement a set of measures aimed at fostering macroeconomic and financial stability and raising the country's standards of living. The reforms include efforts to improve the efficiency of public spending and mobilization of additional revenue.

11. The Government of Benin is aware of the stakes and intends to implement a series of reforms to support the achievement of the expected goals.

II - Reforms envisaged

12. The reforms included in the program associated with FRGC2 for which the Government currently seeks the World Bank's support are intended to improve: (i) public finance management, (ii) the productivity and competitiveness of the agricultural sector and the financial viability of the power sector; and (iii) social services delivery.

Strengthening of public finance management

13. In the PC2D 2018-2021, priority actions for the consolidation and stabilization of the macroeconomic framework include, inter alia, the control of the budget deficit and public debt, the stabilization of the macroeconomic framework and the acceleration of public finance management reforms. To this end, the Government has identified the following priority areas for the FRGC2: (1) the strengthening of domestic revenue mobilization and (2) the improvement of the public spending efficiency.

14. Regarding domestic revenue mobilization, the Government has included among its priorities: (i) the non-renewal of tax exemptions granted to mobile telephone companies; and (ii) the implementation of an online tax declaration platform to be used by large firms at the pilot phase.

15. Regarding the efficiency of public finance management, the Government has cleaned the civil servants' registry by harmonizing and linking the recruitment platform of the Ministry of Labor and Public Service and the wages and payments management system of the Ministry of Economy and Finance.

Improvement of the agricultural competitiveness and financial viability of the power sector

16. In the operational axis of the PC2D related to the stimulation of economic growth, the Government has retained the improvement of the productivity and competitiveness of the agricultural sectors and the financial viability of the energy sector. This is also one of the pillars of the FRGC2.

17. Regarding the improvement of the agricultural sector competitiveness, the main actions envisaged under the FRGC2 are (i) the adoption of a National Agricultural Research Program (PNRA) and the initiation of research activities in 15 experimental sites that are representative of the agricultural development poles; (ii) the adoption of a national policy for quality and the implementation of the action plan for food quality and safety (e.g., adoption of international quality standards for pineapple and shea); and (iii) the adoption of a National Strategy for Agricultural Counseling (SNCA) which will involves the private consultants in its operational phase.

18. On the improvement of the financial viability of the power sector, the actions taken consisted in (i) the introduction of a XOF 10/kWh fee by the High Inter-State Council to compensate the bi-national public company, CEB, for the use of its transmission systems used to deliver electricity to SBEE (and to CET);

and (ii) the SBEE Board's approval of the deployment of smart energy meters for large consumers as part of a more general Revenue Protection Program. As for the deployment of smart energy meters for large consumers, the Government of Benin committed to support this measure through a resolution of the Council of Ministers by the end of 2018.

Improvement of social services delivery

19. In the PC2D, the operational axis related to the improvement of the education system performance provides, inter alia, the reinforcement of the achievements of the Education Sector Development Plan (PDDSE 2006-2015) and the promotion of a comprehensive, inclusive and quality basic education. In addition, the objectives of the operational axis related to the improvement of basic social services and social protection includes the improvement of the health system performance.

20. In an effort to improve social services delivery in 2018, the Government has adopted (i) a new methodology at the Ministry of Primary Education to identify all underserved areas in the country and a decree that assigns all new teachers to these areas; and (ii) a new methodology at the Ministry of Health to identify priority health zones and a decree that assigns 80% of new health personnel (doctors, nurses, midwives) to these areas.

21. The Government is committed to implementing these reform as they contribute to the achievement of the objectives listed in the Growth for Sustainable Development Program (PC2D 2018-2021), the PAG and the policy reforms under the FRGC2. If necessary, the action plan described above could be complemented by further reforms decided in collaboration with the World Bank, notably under the next budget support program.

3 - Coordination and monitoring of the reforms implementation

22. This program will be implemented under the supervision of the Ministry of Economy and Finance, through the Economic and Financial Programs Monitoring Unit (CSPEF), in close collaboration with the relevant sectorial ministries and other entities operating in the areas of concentration of the reforms envisaged under the FRGC2. The World Bank may review the implementation of the reforms on a regular basis. A constant dialogue will be maintained with the World Bank regarding the monitoring of the implementation of the planned reforms.

23. The Government hereby commits to take all the necessary measures to implement the reforms mentioned above and reiterates its financing demand to the World Bank for under the FRGC2.

Romuald WADAGNI

Minister of Economy and Finance

ANNEX 3: FUND RELATIONS ANNEX

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 18/269
FOR IMMEDIATE RELEASE
June 29, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Extended Credit Facility Arrangement and Approves US$22.4Million Disbursement for Benin

On June 29, 2018, the Executive Board of the International Monetary Fund (IMF) completed the second review of the three-year arrangement with Benin under the Extended Credit Facility (ECF). The Board's decision, which was taken on a lapse-of-time basis,[1] makes available SDR 15.917 million (about US$22.4 million) immediately to Benin.

Economic activity expanded and inflation stayed low in 2017. Growth is estimated at 5.6 percent, buoyed by record cotton production, and the recovery of the Nigerian economy. Inflation turned positive for the year and averaged 0.1 percent, driven by food and petroleum prices. The current account deficit is estimated to have widened in 2017, due to an increase in goods imports, reflecting a scaling-up of investment and higher food imports. Budget execution in 2017 was better than initially programmed and the overall fiscal deficit (excluding grants) was limited to 7.0 percentage points of GDP, due mostly to a stronger domestic revenue performance. Public spending was contained to the programmed level. As a result, public debt accumulation was slower than programmed.

Performance under the program continues to be satisfactory. All continuous and end-December 2017 quantitative performance criteria have been met as were all the structural benchmarks (SBs). Under-execution of social spending at end-June 2017 was reversed by September and the indicative target (IT) for end-December 2017 was exceeded.

The medium-term outlook remains favorable. It assumes an acceleration of real GDP growth in 2019–22, driven by policy-induced increase in agricultural production and rising private investment. Inflation is forecast to remain below the WAEMU convergence rate of 3 percent over the medium term. The programmed fiscal consolidation path is expected to bring the budget deficit (including grants) down to below the WAEMU convergence criterion of 3 percent of GDP by 2019. Strong export growth would drive an improvement in the external current account position while sustained capital inflows driven by foreign direct and portfolio investments would enable Benin to contribute modestly to the build-up of WAEMU's international reserves.

[1] The Executive Board takes decisions under its lapse-of-time procedure when it agrees that a proposal can be considered and approved without convening a formal discussion.

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ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: STRENGTHENING FISCAL MANAGEMENT		
Prior Action 1: In order to reduce tax expenditures, the Recipient's Ministry of Economy and Finance has notified cell phone companies that the tax exemptions granted previously to said companies will not be renewed. **Prior Action 2:** In order to simplify tax collection, the Recipient's Ministry of Economy and Finance has launched a new system for the electronic reporting of corporate taxes and has required all large firms to use said system. **Prior Action 3:** In order to enhance the accuracy of the Recipient's public payroll, the Recipient's Ministry of Labor and Public Function (MTFPAS) and the Ministry of Economy and Finance (MEF) have unified the wage management system by harmonizing and linking the MTFPAS database of civil servants with the MEF database used to pay civil servants' salaries, benefits, and other monetary compensation.	These prior actions designed to strengthen domestic resource mobilization are largely environmentally neutral.	These actions are expected to have a positive poverty and social impact by creating more fiscal space for the delivery of essential public services and contribute to a macroeconomic environment conducive to economic growth and private sector employment creation.
Operation Pillar 2: INCREASE AGRICULTURAL PRODUCTIVITY AND STRENGTHEN THE POWER SECTOR'S FINANCIAL VIABILITY		
AREA A: INCREASE AGRICULTURAL PRODUCTIVITY		
Prior Action 4: In order to promote agricultural research, the Recipient's	In the agricultural sector, measures intended to diversify agriculture away	The actions contribute to the Government's poverty reduction goals.

Council of Ministers has adopted the National Program for Agricultural Research (NPAR) and the National Institute for Agriculture Research (INRAB) has launched agro-ecological zone-specific research activities. **Prior Action 5:** In order to promote larger scale adoption of improved technology in the agriculture sector, the Recipient's Council of Ministers has adopted the National Agricultural Extension Strategy (NAES) that promotes the delivery of extension services by private operators. **Prior Action 6:** In order to increase and monitor the quality of agricultural products, the Recipient has adopted a National Policy for Quality and started to implement its Action Plan for food quality and safety in the agriculture sector by defining quality standards for pineapple.	from a reliance on cotton, could have a potentially positive environmental effect as agriculture becomes less mono-culture based and increasingly diversified. Climate smart practices will be part of the service packages to farmers offered by private sector extension service providers.	In 2015, 60 percent of the rural population lived below the US$1.90 per day poverty line. As noted previously, limited agricultural growth (around 3.5 percent per year, which is approximately the rate of population growth in the country) has weakly contributed to poverty reduction. The development of value chains and diversifying production into more valuable crops should boost incomes of households involved in agriculture.
AREA B: STRENGTHEN THE POWER SECTOR'S FINANCIAL VIABILITY		
Prior Action 7: In order to support the financial viability of the power sector, the Inter-State High Council for CEB has adopted a wheeling charge of FCFA 10 per kWh to compensate the bi-national utility CEB on the use of the transmission networks to transit energy to SBEE. **Prior Action 8:** To improve SBEE revenue collection, SBEE's Board of Directors has approved the roll out of Smart Energy Meters for large consumers under the Revenue Protection Program to reduce commercial losses.	The adoption of a wheeling charge and the roll-out of smart energy meters are likely to produce climate change mitigation co-benefits since they help reduce losses and promote a more efficient use of energy.	Prior actions supported in the power sector pillar have a direct and positive impact on the poor. 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. Increased access to electricity is strongly correlated with improved education and health outcomes and associated increases in human capital and earning potential.
Operation Pillar 3: IMPROVE EQUITABLE ACCESS TO EDUCATION AND HEALTH SERVICES		

Prior Action 9: In order to improve equitable access to education services, the Recipient's Ministry of Pre-School and Primary Education has required all newly recruited primary teachers to be deployed to communes where the pupils/teacher ratio is higher than the current national average. **Prior Action 10:** In order to improve equitable access to health services, the Recipient's Ministry of Health has required that at least 80 percent of newly recruited key health care professionals be deployed to the Priority Health Care Precincts identified by the Ministry based on the ratio of health personnel to inhabitants.	The actions supported throughout this pillar are policy-oriented; they do not support direct environmentally impactful investments or involve policy actions with significant environmental consequences.	Prior actions supporting equitable access to education are expected to have indirect positive effects on poverty reduction. Schools quality play a determinant role in education outcomes and the 2017 SCD concluded that low human capital contributes to income inequality, undermines long term economic growth and the prospects of the poor to realize shared prosperity. Prior action 10 supports equitable access to health services through the deployment of new health workers to underserved areas. Providing affordable health care service to the poor remains a challenge in Benin particularly in the rural areas. Addressing health care needs of the poor requires a multidimensional strategy integrating availability of health services, their quality, and financial accessibility.

ANNEX 5: VALUE ADDED OF A POLICY-BASED GUARANTEE (PBG) FOR BENIN

1. **The Government of Benin ("GoB" or "Benin") has requested IDA support in the form of a credit and a policy-based guarantee (PBG).** The PBG would help the GoB raise an international commercial bank loan (in one or several tranches). The PBG, in an amount of up to EURO 154.8 million (equivalent to US$180 million), would facilitate budgetary resources to the GoB of up to EURO 387 million (equivalent to US$450 million), with an expected leverage of up to 2.5 times[36] and IDA allocation by up to 10 times[37]. This is supportive of IDA's overall objectives of multiplying development resources and impact, as well as leveraging concessional windows in innovative ways. The IDA PBG would support Benin's efforts to facilitate its access to international financial markets, while also creating space for greater private sector access to domestic sources of credit. Based on most recent data, volume of the financing to be raised by the operation will be within the debt ceiling available to Benin under the IMF/WB DSA. The proposed project is an application of World Bank Group's Maximizing Financing for Development (MFD) approach to mobilize private sector financing. The new international commercial loan is expected to have a longer tenor and relatively low interest rates due to the IDA PBG – thus generating savings for the budget. This is based on market sounding realized so far by GoB and its financial advisors, with support from the World Bank. It is subject to market conditions remaining favorable.

2. **Currently, Benin does not have good access to external bond or loan capital markets.** Benin is exploring ways to gain access to different funding markets, to diversify its funding sources and avoid being over-reliant on the domestic market. In the context of the proposed operation, through market soundings, GoB and its financial advisors carried out an analysis to identify potential sources of onshore and external commercial financing for Benin (including an initial request for proposals at the end of 2017 which yielded several offers). The assessment of bond and loan markets found that available financing was either subject to market fluctuations, limited in size or had too short a tenor to appropriately match Benin's funding needs. In this context, Benin has sought IDA's credit enhancement products to raise financing in international loan markets at more favorable terms than could be achieved with traditional debt instruments. Such capital raising is also targeted to establish a track-record of Benin's performance and IDA's support for Benin. The proposed PBG would support Benin in accessing new commercial financing sources, diversifying its funding base and establishing a track record for regular future access to such commercial markets. Overall, the proposed operation is supporting an ambitious set of reforms with the potential to accelerate growth. The PBG also means that the set of implemented reforms will be tested by the market, who will assess whether they do indeed put Benin on a different trajectory.

3. **The proposed PBG is expected to help Benin access foreign capital inflows at a sustainable cost in order to continue to improve competitiveness and accelerate growth.** Benin is not rated and has not accessed the international capital markets to date, though GoB is contemplating the possibility of issuing an inaugural bond to international debt capital markets, depending on how market conditions evolve. The proposed PBG would serve as a milestone on Benin's goal to diversify funding sources, irrespective of

[36] The leverage of 2.5x is calculated by dividing loan notional to a hypothetical guarantee coverage of 40 percent. This is to maximize the notional of the financing raised at an affordable cost. Two factors could lead Benin to alter the guarantee coverage. First, Benin may decide to prioritize cost savings over volume of financing raised, and choose to increase the guarantee coverage to achieve this. Second, if market conditions deteriorate, Benin may need to offer a higher guarantee percentage to optimize loan terms.

[37] IDA policy allows for booking only 25 percent of the guarantee exposure in the country's envelope.

whether Benin goes ahead with an inaugural bond issue or not. Benin has historically relied on concessional loans and continues to count on bilateral and multilateral support. The PBG would facilitate Benin's evolution towards a more international and diversified investor base. Accessing international commercial lenders with the support of the PBG would make Benin less reliant on short term domestic debt to fund its budgetary needs should market conditions turn difficult. As the 2015 MTDS highlights, recognizing the diminishing role of concessional financing, authorities are actively seeking additional financing from non-traditional creditors. Benin's liability mix has been evolving, with commercial financing taking a greater percentage over the years in new sources of financing especially as Benin tries to meet large infrastructure finance needs. Substantial amounts of treasury bills and bonds in the WAEMU monetary market were issued to finance the fiscal deficit in 2015 and 2016. As of 2016, domestic debt stock reached 60 percent[38] of the total debt. In fact, non-multi/bilateral borrowing increased from 66.7 percent in 2013 to 83.3 percent of new borrowing sources in 2016 (see table A4.1 below). The average maturity of domestic debt (3.6 years) is much shorter than the average maturity of external debt (13.7 years). For a detailed analysis of Benin's public debt structure by residual maturity, see table A4.2 below.

Table A5.1: Coverage of Borrowing Needs by Source of Financing (2013-2016)

(in CFA billions)	**2013**	**2014**	**2015**	**2016**
Domestic financing sources	*262.4*	*392.6*	*609.2*	*415.0*
- Treasury Bills*	247.1	312.7	121.0	301.0
- Treasury Bonds*	0.0	56.7	423.6	96.0
- Non-marketable loans from BOAD	12.2	11	25.0	N/A
- Non-marketable loans from local banks	3.1	12.2	39.6	33.0
External financing sources	*130.9*	*84.7*	*107.0*	*83.0*
- Bilateral institutions	2.5	13.6	15.2	N/A
- Multilateral institutions	128.4	71.1	91.8	N/A
Total	*393.3*	*477.3*	*716.2*	*498.0*
Domestic financing/ Total Sources	66.7%	82.2%	85.0%	83.3%

Source: 2015 MTDS and 2017 Debt Management Technical Assistance Program (DeMPA).
** The cost of T-Bills and T-Bonds issued by GoB has ranged from 6.9 percent to 7.2 percent depending on tenors.*

4. **Benin has indicated that it plans to use proceeds of the PBG-supported loan to refinance existing, short term expensive debt.** Such debt management strategy makes sense to alleviate the cost of expensive debt, multiple loans, and short-term maturities. Should Benin proceed with this strategy, based on the assumptions from the market sounding, it would create budget savings of up to EUR 31 million (about 2 percent of 2017 revenues) during the life of the PBG loan and the proposed PBG itself would have no immediate impact on debt levels. Indeed, it would be used to refinance existing debt. In the medium-term, through reduced financing costs it may have a further modest contribution to lower debt levels.

5. **PBG supported financing is expected to lead to an extension of tenor expected at up to 10 years.** GoB has no experience with international commercial banks. However, based on market sounding, IDA's presence through a PBG would allow GoB to tap the international commercial loan markets. GoB could

[38] IMF Benin Article IV Consultation and First Review Under the ECF, dated January 2018

extend the maturity compared with what it could achieve in a standalone scenario, lengthen the average life of its debt, and mitigate the rollover risk of its domestic debt. Based on market soundings, Benin could extend tenors up to an unprecedented 10 years, while achieving cost savings compared to its current commercial borrowings.

6. **Cost efficiency goals.** The overall cost savings objective is to allow Benin to raise cheaper cost finance as investors would be pricing a blended Benin and World Bank credit. Depending on the financing alternative chosen and the guarantee leverage utilized, we estimate Benin could save 1 percent to 3 percent in interest cost compared to where it could borrow on a standalone basis from international lenders. Benin could generate these interest savings while making efficient use of its IDA resources and leveraging private capital.

Table A5.2: Benin's public debt structure by residual maturity (as of March 31, 2018)

	Amount in FCFA	Percentage
Domestic Debt	**1,760,927**	**100.00%**
Less than 1 year	278,670	15.83%
1 to 3 years	324,780	18.44%
3 to 5 years	566,471	32.17%
5 to 10 years	467,838	26.57%
more than 10 years	123,169	6.99%
External Debt	**1,222,037**	**100.00%**
Less than 1 year	943	0.08%
1 to 3 years	2,573	0.21%
3 to 5 years	6,086	0.50%
5 to 10 years	44,247	3.62%
more than 10 years	1,168,188	95.59%
Public Debt	**2,982,964**	**100.00%**
Less than 1 year	279,613	9.37%
1 to 3 years	327,353	10.97%
3 to 5 years	572,557	19.19%
5 to 10 years	512,084	17.17%
more than 10 years	1,291,357	43.29%

Source: Benin Caisse Autonome d'Amortissements

7. **Free up capacity of domestic banks to lend to private sector.** Increasing access to foreign financing to meet GoB's financing needs would also free up domestic resources to finance private sector investment. The freed-up capital from local banks would help revive credit growth and crowd in the private banking sector to finance viable private sector projects. As highlighted by the IMF in its January 2018 report, improving access to credit for small businesses is still a key action required. By the end of 2018, the government plans on adopting a new regulatory framework for microfinance institutions.

8. **Foreign Exchange risk.** Benin has indicated that they intend to raise the commercial loan in Euros (for a currency breakdown of Benin's external debt, see Table A4.2). CFAF, the local currency for the WAEMU, was created as a fixed exchange rate to the French Franc since 1945 and to the Euro since 1999. This exchange rate was changed only twice: in 1948 and in 1994. The French Treasury guarantees the

free convertibility at a fixed parity between the euro and the CFAF. WAEMU's reserves are a common pool from which all residents of the currency union, regardless of nationality, can obtain foreign exchange at a fixed parity with the Euro for legitimate external current transactions, provided they have corresponding local currency holdings. Accordingly, the BCEAO stopped publishing "imputed reserves" data for each member country, and the data for the common pool of reserves are now reported for each WAEMU member country. Overall, the foreign exchange risk is considered minimal.

Table A5.3: Benin's external debt by currency (in percentage)

		2013	2014	2015	2016	2017
Total Debt	Billion XOF	1144.0	1461.8	2080.5	2513.1	2927.4
	% of GDP	25.3	30.5	42.4	49.4	54.3
External Debt	Billion XOF	677.0	860.3	1043.6	1139.6	1184.6
	% of GDP	15.0	17.9	21.3	22.4	22.0
External debt by currency (in percentage)	AED	0.2	0.2	0.2	0.3	0.2
	EURO	30.5	29.5	28.3	26.2	29.0
	KWD	3.0	2.8	2.8	2.9	2.4
	SAR	0.2	0.6	1.4	1.3	1.5
	USD	43.7	42.6	40.4	36.7	35.1
	YRMB	8.7	10.9	13.9	21.3	19.9
	JPY	5.9	5.7	5.5	5.5	5.7
	GBP	7.9	7.7	7.4	5.8	6.1

Source: Government data and WB calculations (May 2018).

9. **The PBG has additional benefits.** The raising of the PBG Loan would demonstrate continued international support to Benin. GoB's reform agenda would form one of the bases on which GoB would engage with the market. Evidence suggests that, as a result of positive signaling and by offering an improved risk profile, PBG-supported financing could attract new investors while ensuring continuity of access to international commercial markets. The PBG would also allow for greater World Bank resources to be available to Benin by extending the IDA envelope.

10. **The PBG structure is flexible.** The available PBG could be structured in a flexible way to provide principal and/or coupon coverage. The PBG would be partial and apply on select debt service payments through a structure to be developed in coordination with GoB, its financial advisors, and the market. Possible guarantee structures could include rolling coverage of scheduled principal and coupon payments for an amortizing loan, or a percentage of all debt service payments throughout the life of the loan/bond or back-ended coverage where only debt service payments at the end of the loan/bond tenor would be covered.

11. **Mechanics of the PBG**. Benin as the borrower would have the primary obligation to ensure timely repayment to the investors. However, if Benin failed to make a guaranteed debt service payment, the holders of the financing could call on the guarantee for repayment of the amount of such payment. Following payment by the Bank under its guarantee, the Bank would have under its Indemnity Agreement with the GoB, sole discretion to decide whether to demand immediate repayment from Benin or to extend

terms for repayment over time. The guarantee would not be reinstated for any amounts paid under the guarantee. However, any uncalled amounts of the guarantee would remain in place according to the original structure. If Benin did not repay IDA after a call on the guarantee and a demand for repayment, IDA could suspend its program in the country. Based on previous experiences and given these remedies, the risk of the guarantee being called is very low. Please refer to the draft term sheet in the Annex hereto for further detail on terms and conditions of the proposed guarantee.

12. **Market conditions can affect the value added of the PBG but technical design risks are currently moderate.** The outcome of the PBG supported financing will be impacted by several variables outside of GoB's influence, such as pipeline of financings in the international debt markets, news spreading across emerging markets in general, commodity price movements, and overall investor sentiment. While market conditions can always turn unpredictably, this is mitigated by the presence of strong financial advisors who have worked alongside GoB in recent months and proceeded diligently to test the market and structure the financing in light of feedback received and GoB's funding objectives. They have received encouraging responses from an initial market sounding at the end of 2017 (see paragraph below), continued interest from several banks thereafter, and a competitive procurement process[39] with a Request for Proposals (RfP) including IDA's termsheet was launched on June 15, 2018.

13. **Benin has done market sounding which has demonstrated that there is bank appetite** for a commercial bank loan supported by an IDA PBG. Several banks have expressed interest. The Bank will work with the GoB, its advisors, and lead arranging banks to extract the best value for the PBG and meet the needs of the GoB. The final terms would be determined at the end of the RfP process, depending on the market conditions at the time of the placement in light of Benin's funding parameters such as volume, maturity, spread savings and World Bank guarantee utilized/leveraged. GoB and its advisors will establish with the lead arranging banks (to be mandated following ROC approval) and IDA support which structure best serves to meet Benin's objectives as part of finalizing guarantee and financing terms.

14. **Optimal financing amount and terms.** Financing amount to be raised with the support of the PBG and terms of the PBG loan would be determined together with GoB based on their financing needs, with due consideration given to market dynamics and timing of Benin's planned inaugural sovereign bond issuance. PBG will be provided to the extent necessary to mobilize commercial financing.

15. **Funds flow arrangements for the PBG.** The PBG is not a financing instrument whose proceeds would be disbursed by the World Bank to Benin. Instead, the PBG would be provided for the benefit of the investors in the international loan market contracted by Benin and would provide protection against a non-payment of selected interest and/or principal payments by Benin under this financing. This would be further set out in the Guarantee Agreement that would be negotiated between IDA and the underwriters. Benin would be able to draw on the financing raised with the PBG following successful conclusion of negotiations among GoB, the investors/underwriters and IDA of the financing agreements and satisfaction of all conditions precedent. The proceeds of the financing would not be applied to finance excluded expenditures as defined in the Indemnity Agreement. If any portion of the financing is used to finance such excluded expenditures, GoB would be required to reallocate a corresponding amount

[39] A transparent and competitive procurement process that follows internationally acceptable commercial practice has been designed with support from the Government's financial advisors and the World Bank to guide the selection of banks.

equivalent to such portion to other non-excluded expenditures or, if permitted under the financing, to prepay the corresponding portion of the financing.

ANNEX 6. POLICY BASED GUARANTEE INDICATIVE TERM SHEET

This term sheet contains a summary of indicative terms and conditions of a proposed guarantee ("Guarantee") by the International Development Association ("IDA") for discussion purposes only and does not constitute an offer to provide a Guarantee. The provision of a Guarantee is subject, inter alia, to satisfactory appraisal by IDA of the operation, compliance with all applicable policies of the World Bank, including those related to environmental and social safeguards, as applicable, review and acceptance of transaction documentation by IDA, and the approval of the management and Executive Directors of IDA in their sole discretion. Without limiting the generality of the foregoing, IDA is highly selective with regard to the clients and beneficiaries it works with and is diligent with Know Your Customer requirements for all participants in financings it guarantees or supports.

IDA-Guaranteed Loan (the Financing)	
IDA-Guaranteed Loan Agreement:	Agreement among the Borrower, the Agent [on behalf of] [and the] Lenders and IDA as Guarantor setting out terms and conditions of the Financing, mechanism for payment on the Financing[, and containing the Guarantee][40] [for each tranche].
Borrower:	The Republic of Benin
Guaranteed Lender/Beneficiaries of the IDA Guarantee:	[Commercial bank lenders, investors or the Agent on their behalf, each to be identified][for each tranche]
Currency:	[EUR][US$]
Principal Amount:	Up to [XXX] million [in one or several tranches]
Term:	Up to [12] years
Repayment of the Financing:	[Annual][Semi-annual][Quarterly]
Loan Interest Rate:	[Spread above EURIBOR/LIBOR][Interest rate] acceptable to IDA
IDA Guarantee	
Guarantor:	International Development Association (IDA)
Guarantee Face Value:	[EUR][US$] [XXX] million
Guarantee Support:	IDA would guarantee the payment, following occurrence of a Guaranteed Event, of [principal and interest amounts] [selected, pre-agreed debt service payments] due on scheduled payment dates up to the Maximum Guaranteed Amount.

[40] The Guarantee could be contained in the IDA Guaranteed Loan Agreement or separately in an IDA Guarantee Agreement between IDA and the Agent on behalf of the Lenders.

Guaranteed Events:	Failure by the Borrower to [make certain payments of [principal] [and interest] on][repay at scheduled maturity the principal amount of] the Financing.
Guarantee Period:	[Define guarantee period]
Maximum Guaranteed Amount:	A partial amount of financing, not to exceed the Guarantee Face Value.
Amendments and waivers:	IDA will be entitled to be kept fully informed about any proposed waiver or amendment to the terms of the transaction. Certain amendments or waivers to the provisions of the finance documentation and IDA Guarantee, insofar as they relate to the IDA Guarantee, requires the prior written consent of IDA, including, but not limited to, any material amendment or modification to a finance document or any amendment or waiver that affects the rights and obligations of IDA.
Suspension:	IDA may, during the availability period for drawdown of the guaranteed financing, inform the Agent that no further drawdown of the guaranteed financing, from the date of notification by IDA up until such notice is revoked by IDA, will be covered by the IDA Guarantee upon the occurrence of the following types of scenarios, *inter alia*: (i) an event of default occurs under the guaranteed financing or (ii) the Agent or a beneficiary of the IDA Guarantee engaged in certain sanctionable practices (fraud, corruption, coercion, collusion, obstruction) relating to the guaranteed financing. If the event giving rise to a suspension has been waived by IDA, or remedied to IDA's satisfaction, then IDA may revoke its suspension notice and let the Agent know which amounts are reinstated for coverage under the IDA Guarantee].
Exclusion:	IDA is not liable for losses directly resulting from noncompliance with, or the invalidity, illegality or unenforceability of any transaction document under laws in effect on, or events occurring before, the date of the IDA-Guaranteed Loan Agreement. IDA may deny payment to a beneficiary of the IDA Guarantee in the following types of scenarios, *inter alia*: (i) a sanctionable practice (fraud, corruption, coercion, collusion, obstruction) has been found to have been committed by the Agent or a beneficiary of the IDA Guarantee; (ii) the Agent or a beneficiary of the IDA Guarantee, *inter alia*, amends the guaranteed financing documents, or transfers, or assigns the financing to a non-commercial lender or debarred lender without IDA's prior written consent; and (iii) the Agent or a beneficiary of the IDA Guarantee engages in Repackaging Arrangements in respect of the IDA Guarantee.
Termination:	The Guarantee may be terminated, *inter alia*, if (i) an installment of the Guarantee Fee or Standby Fee is not paid when due; (ii) an amendment, waiver, modification or other change is made or given relating to certain provisions of the finance documentation, IDA's rights or obligations, or the Guarantee without IDA's prior written consent, including but not limited to any material amendment or modification to a finance document or any amendment or waiver that materially and adversely affects the rights and

	obligations of IDA; (iii) following full payment of all guaranteed amounts; (iv) after the final date for payment under the Guarantee or (v) in respect of amounts withheld under the IDA guarantee in respect of the Exclusion events described above if IDA has withheld such amounts for a period of 12 months.
No Discharge:	Neither the obligations of IDA under the IDA Guarantee nor the rights, powers and remedies conferred upon the Agent with respect to IDA by the IDA Guarantee or by applicable law or regulation shall be discharged, impaired or otherwise affected by: (i) any insolvency, moratorium or reorganization of debts of or relating to the Borrower; (ii) any of the obligations of the Borrower under the financing agreements being or becoming illegal, invalid, unenforceable, void, voidable or ineffective in any respect; (iii) any time or other indulgence being granted to the Borrower in respect of its obligations under the financing agreements; or (iv) any other act, event or omission (other than the failure of the Agent to make a timely and duly completed demand under the IDA Guarantee) which might otherwise operate to discharge, impair or otherwise affect any of the obligations of IDA under the IDA Guarantee or any of the rights, powers or remedies conferred on the Agent by the IDA Guarantee or by applicable law or regulation.
Reduction of Demand:	If, after the Agent has made a demand on IDA for payment under the IDA Guarantee, but before IDA has made payment of the amount so demanded, the Agent receives payment in respect of such amount from the Borrower (or the Agent recovers otherwise than from IDA) any sum which is applied to the satisfaction of the whole or any part of such amount, the Agent shall promptly notify IDA of such fact and IDA's liability under the IDA Guarantee in respect of such demand shall be reduced by an amount equal to the portion so paid by the Borrower (or so recovered by the Agent) and so applied.
Non-Accelerability of Guarantee:	The Guarantee cannot be accelerated and become payable prior to the scheduled debt service payment dates under any circumstances, including if the underlying IDA-guaranteed Financing is accelerated as a result of a Guaranteed Event. In such instances, the IDA Guarantee will cover payment of debt service up to the Maximum Guaranteed Amount in accordance with the original payment schedule.
Conditions Precedent to Effectiveness of the IDA Guarantee:	Usual and customary conditions for financing of this type including but not limited to the following: a) Provision of relevant legal opinions satisfactory to IDA (including a legal opinion from the appropriate official of Republic of Benin relating to the Indemnity Agreement); b) Payment [in full] of the Guarantee Fee c) Conclusion of an Indemnity Agreement between IDA and Republic of Benin, and any other applicable documentation, acceptable to IDA; and d) Satisfaction of any other conditions precedent under the financing documents.
Subrogation:	If and to the extent IDA makes any payment under the Guarantee, IDA will be subrogated immediately to the extent of such unreimbursed payment to the

	lenders' rights.
Right to Purchase:	[If IDA guarantees payment of interest, then upon payment default by the Borrower, IDA will have the right to purchase all rights, title and interests of the Beneficiaries in the Financing.]
Repackaging Arrangements:	The Agent and Guaranteed Lenders will severally undertake for the benefit of IDA that, as long as the IDA Guarantee remains in effect, they will not enter into or permit any of their affiliates to enter into any arrangement pursuant to which any security or other similar obligation is created or issued, the economic effect of which is the separation of rights of payment from IDA under the IDA Guarantee and of rights of payments from the Borrower under the financing, which is referred to as "Repackaging Arrangements".
Guarantee Fee [(recurring)]:	[75] basis points per annum. The IDA guarantee fee is charged on that portion of the guaranteed amount that IDA has contractually committed and for which IDA has financial exposure under the guarantee. The Guarantee Fee must be paid [in advance semi-annually on regular payment dates][in a one-time lump sum]. Where the Guarantee Fee is payable in installments, the Guarantee will terminate in the event of nonpayment of any installment of the Guarantee Fee.
Governing law:	English law or New York Law.
Indemnity Agreement	
Parties:	IDA and Republic of Benin (the "Member Country")
Indemnity:	The Member Country will reimburse and indemnify IDA on demand, or as IDA may otherwise direct, for all payments under the Guarantee and all losses, damages, costs, and expenses incurred by IDA relating to or arising from the Guarantee.
Covenants:	Usual and customary covenants included in agreements between member countries and IDA for policy-based guarantee operations.
Remedies:	If the Member Country breaches any of its obligations under the Indemnity Agreement, IDA may suspend or cancel, in whole or in part, the rights of the Member Country to make withdrawals under any other loan or credit agreement with IDA, or any IDA loan to a third party guaranteed by the Member Country, and may declare the outstanding principal and interest of any such loan or credit to be due and payable immediately. A breach by the Member Country under the Indemnity Agreement will not, however, discharge any guarantee obligations of IDA under the Guarantee.
Governing Law:	The Indemnity Agreement will follow the usual legal regime and include dispute settlement provisions customary for agreements between member countries and IDA.

ANNEX 7: RATIONALE FOR CHANGE BETWEEN ORIGINAL TRIGGERS AND PRIOR ACTIONS

Triggers agreed during negotiations of FRG1	Rationale for Change	New Prior Actions
PILLAR 1: STRENGTHENING FISCAL MANAGEMENT		
AREA A: STRENGTHEN DOMESTIC RESOURCE MOBILIZATION		
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.	**Adjusted to clarify the focus on large taxpayers, which account for the majority of tax collection in Benin.**	In order to simplify tax collection, the Recipient's Ministry of Economy and Finance has launched a new system for the electronic reporting of corporate taxes and made its use mandatory for all large registered firms.
Indicative Trigger 2: The MEF has operationalized the tax policy unit by allocating human and financial resources.	**The measure in the trigger was successfully completed but was not included in the policy matrix to create space for more critical measures in the new HD pillar.**	**NA**
Indicative Trigger 3: To increase revenue collection, the MEF has implemented the recommendations derived from a comprehensive analysis of tax expenditures.	**Adjusted to be more specific and highlight a concrete measure derived from the analysis of tax expenditures and generating significant fiscal savings (about 0.35 percent of GDP per year).**	In order to reduce tax expenditures, the Recipient's Ministry of Economy and Finance has notified cell phone companies that the tax exemptions granted previously to said companies will not be renewed.
AREA B: IMPROVE THE EFFICIENCY OF PUBLIC SPENDING		
Indicative Trigger 4: A joint Team of the MEF and the Ministry of Public Service will review each case flagged by the Census to verify which cases require an administrative action.	**The measure in the trigger was successfully completed but was not included in the policy matrix to create space for more critical measures in the new HD pillar.**	**NA**
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	**Unchanged.**	In order to enhance the accuracy of the Recipient's public payroll, the Recipient's Ministry of Labor and Public Function (MTFPAS) and the

connected the Human resource management information system (SIGRH) with the Payroll Management Application (SunKWE).		Ministry of Economy and Finance (MEF) have unified the wage management system by harmonizing and linking the MTFPAS database of civil servants with the MEF database used to pay civil servants' salaries, benefits, and other monetary compensation.
PILLAR 2: INCREASING AGRICULTURAL PRODUCTIVITY AND STRENGTHENING POWER SECTOR'S FINANCIAL VIABILITY		
AREA A: INCREASING AGRICULTURAL PRODUCTIVITY		
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.	**Adjusted to improve the formulation.**	In order to promote agricultural research, the Recipient's Council of Ministers has adopted the National Program for Agricultural Research (NPAR) and the National Institute for Agriculture Research (INRAB) has launched agro-ecological zone-specific research activities.
Indicative Trigger 7: In the context of the new agricultural strategy, the Government has put in place a new irrigation policy framework tailored to the development of priority sectors within the agro-ecological zones and endowed it with an adequate budget allocation.	**Since the Government is planning to advance the irrigation agenda through investments, this trigger was substituted with a prior action on agriculture extension services which will support agricultural sector productivity.**	In order to promote larger scale adoption of improved technology in the agriculture sector, the Recipient's Council of Ministers has adopted the National Agricultural Extension Strategy (NAES) that promotes the delivery of extension services by private operators.
Indicative Trigger 8: The Government has adopted the National Policy for Quality and started the implementation of the Action Plan for the agriculture sector.	**Unchanged.**	In order to increase and monitor the quality of agricultural products, the Recipient has adopted a National Policy for Quality and started to implement its Action Plan for food quality and safety in the agriculture sector by defining quality standards for pineapple.

AREA B: STRENGTHENING POWER SECTOR FINANCIAL VIABILITY		
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).	**This trigger (which has been regularly fulfilled) was not included in the matrix but is captured by one of the Results Indicators.**	NA
Indicative Trigger 10: The Government has developed a transparent methodology for annually determining and updating electricity tariffs.	**Changed to focus on more urgent issue. The introduction of the wheeling charge related to the use of transmission networks is more urgent than developing a methodology to update tariffs. The decision of the GoB to import from an IPP based in Nigeria and to increase national generation with IPPs would significantly impact the financial viability of CEB if the wheeling charge is not in place because CEB has lost its function as the single buyer and producer for Benin.**	In order to support the financial viability of the power sector, the Inter-State High Council for CEB has adopted a wheeling charge of FCFA 10 per kWh to compensate the bi-national utility CEB on the use of the transmission networks to transit energy to SBEE.
Indicative Trigger 11: To promote private sector participation in the power sector, the Government has submitted to Parliament a draft Electrical Code.	**Changed to reflect the conclusions of recent analytical work (P110075) and the current situation of the sector. In the short-term, working on efficiency enhancement through loss reduction and revenue collection improvement is a priority for Benin.**	In order to improve the revenue collection of SBEE, SBEE's Board of Directors has approved the roll out of Smart Energy Meters for large consumers under the Revenue Protection Program to reduce commercial losses.
PILLAR 3: IMPROVE EQUITABLE ACCESS TO EDUCATION AND HEALTH SERVICES		
	New measure which further strengthens the reform program supported by the proposed operation with respect to what agreed during negotiations of FRG1.	In order to improve equitable access to education services, the Recipient's Ministry of Pre-School and Primary Education has required all newly recruited primary teachers to be deployed to communes where the pupils/teacher ratio

		is higher than the current national average.
	New measure which further strengthens the reform program supported by the proposed operation with respect to what agreed during negotiations of FRG1.	In order to improve equitable access to health services, the Recipient's Ministry of Health has required that at least 80 percent of newly recruited key health care professionals be deployed to the Priority Health Care Precincts identified by the Ministry based on the ratio of health personnel to inhabitants.