



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 13-May-2020 | Report No: PIDA29252



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Benin	P174008	Benin Supplemental COVID-19 2020 (P174008)	P168668
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	26-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Benin	Ministry of Economy and Finance		

**Proposed Development Objective(s)**

The Program Development Objectives are to support the Government to : 1) strengthen fiscal and debt management; 2) improve the financial sustainability of the energy sector ; and 3) foster the development of the digital economy.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	50.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	50.00
World Bank Lending	50.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

**Country Context**

1. **The proposed operation provides US\$50 million in supplemental financing for the First Fiscal Reform and Structural Transformation Development Policy Operation (P168668, DPO1) to help the Government of Benin (GoB) cover an unanticipated financing gap that has opened due to the impact of the COVID-19 outbreak.** On December 12, 2019, the Board approved DPO1 with an amount of US\$100 million. This operation is a single-tranche disbursement of IDA Credit for US\$50 million equivalent. The development objectives are: (1) to strengthen fiscal and debt management, (2) to improve the financial sustainability of the energy sector, and (3) to foster the development of the digital economy. The request for supplemental financing is consistent with the World Bank policy on Development Policy Financing.



2. **As most low-income countries (LICs) Benin stands to be negatively affected by the unfolding economic and social spillovers of the COVID-19 crisis.** The crisis is hitting the country at a time when it is already coping with an adverse external shock: Since August 2019, Nigeria - its main economic partner - decided to close its land border with neighbors, negatively impacting informal trade and tax revenue collection. As a result, real GDP growth is projected to halve in 2020. This would stall or even reverse the gains in poverty reduction with 45.4 percent of the population already living below US\$1.9/day (US\$ 2011, PPP) in 2019. Ninety percent of the labor force is estimated to work in the informal economy with limited social safety nets and access to credit. Benin registered its first COVID-19 case on March 16, 2020 and there have been 327 positive cases (two death) as of May 13, 2020. A larger spread of the virus could have unprecedented economic and social costs.

3. **The Government has adopted strong public health measures to contain the pandemic, but the fiscal buffer is significantly constrained.** In early March, the GoB developed a Health Preparedness and Response Plan to strengthen its health response capacity. It is now preparing palliative measures against the economic fallout from the contraction of external demand and the domestic impact of containment and mitigation measures. As such, on top of the health pillar, the National Response Plan is focusing on two additional priority areas: providing assistance to extremely poor and vulnerable households; and supporting ailing businesses and economic recovery. The estimated cost of the Health Plan is CFAF 60 billion (US\$102 million) while about CFAF 90 billion (US\$153 million) are planned for the social and economic areas. The total is close to 2 percent of GDP. The GoB will rationalize non-priority expenditures and reallocate the budget, but the fiscal impact will be significant given the steep rise in expenditures and sharp decline in tax revenues. Overall the fiscal deficit (including grants) is expected to rise to 3.5 percent of GDP in 2020.

4. **The proposed operation will contribute to closing the unexpected financing gap of US\$255 million (1.7 percent of GDP) in 2020.** The financing gap comes at a time when financing options are drastically reduced. Tightening global and regional financial markets have increased the costs of bond issuance. In Benin, the volume of bids in government bond auctions in the regional market has declined sharply and Eurobond spreads have risen substantially (by 600 basis points). This underscores the critical need for external concessional borrowing to avoid short term liquidity pressures and a disorderly macroeconomic adjustment. The Sixth Review of the IMF Extended Credit Facility (ECF) is scheduled for May 15, 2020 and includes a request for augmenting the quota by 61.4 percent (US\$104m). Other donors are also planning to provide budget support while UN agencies and the WHO are already providing support in kind or grants.

5. **The program supported by the two-DPO programmatic series remains on track and its reforms are highly relevant for supporting the Government's response to COVID.** Pillar 1 supports domestic revenue mobilization to create fiscal space and increase the tax base thus improving the efficiency of countercyclical fiscal policies. Achievements in tax policy and tax administration will prove to be an important buffer in the current context. While tax revenue targets might be derailed temporarily owing to the crises, ongoing reforms should help recovery in the medium-term. There has been significant progress on debt management, and commitment remains to ensure an adequate framework to monitor guarantees to SOEs. Reforms in Pillar 2 have supported the improvement of the financial sustainability of the electricity sector with a significant reduction in technical and commercial losses, and of the operational deficit of the electric utility (*SBEE, Société Beninoise d'Énergie Électrique*). Maintaining the pace of reforms and focusing on reverting any possible temporary fallout, including the possible buildup of arrears, will be crucial under the series. Under Pillar 3, there has been important gains on broadband penetration and the development of online public services. These have proven essential in the context of the current crisis which limits face-to-face interactions. The GoB had taken significant steps towards completion of the indicative triggers before the shock, and despite the challenging environment, it remains strongly committed to the program development objectives.

#### Relationship to CPF

6. **DPF loans are an important instrument in the World Bank Group's ongoing policy dialogue with the Government of Benin and its development partners.** The WBG Country Partnership Framework (CPF) for FY2019-2023 (Report No. 123031-BJ) reflects the priorities identified by the Systematic Country Diagnostic (Report No. 114822-BJ). The guiding



principles of the CPF state that DPFs support the government to (a) leverage its own resources for its priority development targets; (b) crowd in international and domestic private sector financing, and (c) use innovative financing models. Selected pillars supported by the DPF series are aligned with the SCD and CPF priorities, including macroeconomic and fiscal stability, debt management, electricity provision, and the development of a digital economy. All these areas are viewed as critical for job creation arising from structural transformation and the delivery of quality social services – the first two pillars of the CPF - thus complementing other interventions in agriculture, infrastructure, and human capital. The digital economy can help achieve the UN Sustainable Development Goals (SDGs) and the World Bank Group’s twin goals.

### C. Proposed Development Objective(s)

The Program Development Objectives are to support the Government to : 1) strengthen fiscal and debt management; 2) improve the financial sustainability of the energy sector ; and 3) foster the development of the digital economy.

#### Key Results

7. **The combination of measures supported by the proposed parent operation (DPO1) are expected to have an important impact across sectors.** They are expected to improve domestic tax revenue mobilization efforts and strengthen Benin’s debt management practices (pillar 1). Tax revenue to GDP is expected to rise despite the external shock of COVID-19 supported by growth in direct and indirect taxes. The measures should also produce positive financial results for the Electricity Utility company SBEE, and support Benin’s gradual transition towards renewable energy sources (pillar 2). For example, the level of technical and commercial losses is expected to decline from 24 percent in 2018 to 20 percent in 2021; while the percentage of renewable energy (as percent of total energy mix) should increase from 9.8 percent in 2018 to more than 13 percent in 2021. Finally, the measures will support the Government’s efforts to reduce the digital divide, and significantly increase the quality and integrity of the digital services developed and provided in Benin both from the supply and demand sides. Access to enhance broadband internet should increase during this period from 13.8 to 20 percent in 2021.

### D. Project Description

8. **The focus of this supplemental financing operation is to safeguard the implementation of critical reforms in fiscal and debt management, energy and digital economy achieved under DPO1.** It does so by providing immediate support to close an unexpected financing gap, providing fiscal sustainability and continued commitment to reform implementation in face of a severe economic, fiscal and social crisis due to the COVID-19 pandemic.

9. **The COVID-19 pandemic and economic crisis have significantly increased risks to achieving the development outcomes (as measured by the results indicators) targeted by programmatic DPO series.** As policy and financing constraints divert resources towards crisis management, an extended economic and fiscal fallout could derail the development objectives of the programmatic DPO series. In the absence of sufficient financial support, domestic revenue mobilization and debt management may be weakened; the financial viability of the energy sector may be placed at risk; and progress on the digital development sector may be delayed. The proposed Supplemental Financing (SF) would play a key role in addressing the short-term liquidity needs of the GoB in order to provide the necessary breathing space to protect structural reforms.



10. **The proposed operation will contribute to closing the unexpected financing gap of 1.7 percent of GDP in 2020.** The financing gap comes at a time when financing options are drastically reduced. Tightening global and regional financial markets have increased the costs of bond issuance. In Benin, the volume of bids in government bond auctions in the regional market has declined sharply and Eurobond spreads have risen substantially (by 600 basis points). This underscores the critical need for external concessional borrowing to avoid short term liquidity pressures and a disorderly macroeconomic adjustment. The Sixth Review of the IMF Extended Credit Facility (ECF) is scheduled for May 15, 2020 and includes a request for augmenting the quota by 61.4 percent (US\$104 million). Other donors are also planning to provide budget support while UN agencies, the WHO and the private-sector are already providing support in kind or grants.

11. **The program supported by the two-DPO programmatic series remains on track and its reforms are highly relevant for supporting the Government's response to COVID-19.** Pillar 1 supports domestic revenue mobilization to create fiscal space and increase the tax base thus improving the efficiency of countercyclical fiscal policies. Achievements in tax policy and tax administration will prove to be an important buffer in the current context. While tax revenue targets might be derailed temporarily owing to the crises, ongoing reforms should help recovery in the medium-term. There has been significant progress on debt management, and commitment remains to ensure an adequate framework to monitor guarantees to SOEs. Reforms in Pillar 2 have supported the improvement of the financial sustainability of the electricity sector with a significant reduction in technical and commercial losses, and of the operational deficit of the electric utility (SBEE, *Société Beninoise d'Énergie Électrique*). Maintaining the pace of reforms and focusing on reverting any possible temporary fallout, including the possible buildup of arrears, will be crucial under the series. Under Pillar 3, there has been important gains on broadband penetration and the development of online public services. These have proven essential in the context of the current crisis which limits face-to-face interactions. The GoB had taken significant steps towards completion of the indicative triggers before the shock, and despite the challenging environment, it remains strongly committed to the program development objectives.

## E. Implementation

### Institutional and Implementation Arrangements

12. **The Ministry of Economy and Finance (MEF) is the main counterpart for monitoring program implementation.** The Ministry's Monitoring Unit for Economic and Financial Programs (Cellule de Suivi des Programmes Économiques et Financiers, CSPEF) conducts a systematic review of the performance indicators and targets set out in sector program budgets, with inputs from sector ministries. 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, 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.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

13. **The assessment for the reform program supported by DPO1 remains unchanged with actions likely having positive indirect impacts on poor households; their relevance is renewed in the current context.** Under Pillar 1, improved domestic revenue mobilization will reinforce macroeconomic stability, hence preventing fiscal imbalances that could threaten pro-poor spending and strengthening the necessary conditions for accelerated growth. A larger tax base would prove essential for the effectiveness of countercyclical fiscal measures during adverse external shocks, such as the current COVID-19 pandemic, improving government response capacity. In addition, improved oversight of SOEs through a framework for guarantees and on-lent loans provision, will strengthen the management of public resources and support



debt sustainability. Under Pillar 2, improving the financial sustainability of the energy sector should reduce regressive subsidization, allow an increase in pro-poor expenditures and provide greater access to electricity, particularly in rural areas where only 6 percent of the population has access. Finally, under Pillar 3, the reform program supports the expansion of the digital economy that should create favorable conditions for small and informal firms, representing over 90 percent of total firms (WB Enterprise Survey 2016). Digital solutions enhance gender equality and women's empowerment by allowing women to access information and by supporting women-owned enterprises.

14. **A protracted COVID-19 crisis is likely to substantially reduce household income, possibly undermining some of the welfare gains of recent years.** In 2019, 44.5 percent of the population was estimated to live under the poverty line of US\$1.9/ day (2011 PPP) based on the 2015 EMICoV survey. Under the baseline scenario, with real GDP per capita only increasing by 0.5 percent in 2020, poverty reduction decelerates significantly from an annual pace of about 3 percent in the previous two years to virtually zero in 2020. More alarming, poverty rates reach pre-2016 levels under the downside scenario in 2020, as real GDP per capita declines by 1.0 percent and growth in agriculture and services is hampered, reverting recent gains in poverty reduction. Poor households will be primarily affected by a loss of labor and non-labor income. The expected effects of containment measures on food prices will also be particularly detrimental for vulnerable households. Further, on top of these traditional channels are the added shocks linked to health, the disruption of public service delivery (e.g. school feeding programs), and the medium term impact of the sale of productive assets. The latter would have negative repercussions on human capital accumulation in the long term. The Human Capital Index is already very low: children born in Benin in 2018 will only be 41 percent as productive when they grow up as they could be if they enjoyed complete education and full health. Gender gaps may result exacerbated as a consequence of the pandemic, as women are particularly vulnerable in terms of accessing services, assets and the labor market. The GoB's National Response Plan in preparation, should help mitigate these negative effects.

Environmental, Forests, and Other Natural Resource Aspects

15. **The policies supported by DPO1 are not expected to have negative effects on Benin's environment, forests, water resources, habitats, or other natural resources. This assessment remains current.**

## G. Risks and Mitigation

16. **The overall risk rating of the operation has been increased from Substantial to High, as risk under several sub-components has significantly increased on account of the COVID-19 crisis.** The change in the risk assessment is linked to a perceived increase in macroeconomic risks, sectoral and institutional capacity risks linked to the uncertainty of the impact of COVID-19 in the globally economy, SSA and the country. Other risks are deemed high linked to the weakness of the health system. Macroeconomic risks have significantly increased and depend primarily on the depth and duration of the COVID-19 pandemic. A protracted and deeper crisis (including a longer border closure with Nigeria) would further slowdown growth, weakening tax revenue collection while expenditure steeply rise, thus posing some risks to fiscal sustainability. Sector risk is increased to substantial. Notably, energy sector policy reforms could be affected by repercussions from reduced or delayed investment activity, pressures on tariffs in face of the unfolding economic and social crisis, and the buildup of arrears. Institutional Capacity for Implementation and Sustainability is challenged by the need to mitigate the current crisis. Lastly, Other risks are high associated with low health capacity that could result in a more severe public health shock from COVID-19 increasing the cost on lives and livelihoods. Political and Governance risks remain substantial as local elections remain planned in May 2020, and will need to follow adequate mechanisms to ensure the safety and transparency of the process under the COVID-19 crisis.



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**APPROVAL**

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**Approved By**

Country Director:	Coralie Gevers	06-May-2020
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