Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-Jul-2018 | Report No: PIDA25112

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Benin	P166115	Benin Second Fiscal Reform and Growth DPF (P166115)	P160700
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	30-Aug-2018	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Government of Benin	Ministry of Economy and Finance		

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.

Financing (in US$, Millions)

SUMMARY

Total Financing	465.00

DETAILS

Total World Bank Group Financing	195.00
World Bank Lending	15.00
World Bank Guarantees	180.00
Total Non-World Bank Group Financing	450.00
Private Capital and Commercial Financing	450.00
of which Private Capital	450.00

Decision

The review did authorize the team to appraise and negotiate

This PID covers both the IDA Credit (US$ 15 million) and the PBG (US$ 180 million).

B. Introduction and Context

Country Context

Benin is one of the world's least-developed countries, with an annual per capita income of approximately US$830 in 2017. Poverty remains widespread, with a poverty rate of about 50 percent (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 broad-based and stronger growth. There are significant regional disparities in poverty rates and rural poverty rates are higher than those in urban areas. Fewer female-headed households fall below the national poverty line than male-headed households. However, women continue to suffer from a lack of economic opportunity and are under-represented in politics and in other high-level decision-making positions.

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 which aims to address Benin's balance of payments needs, and alleviate the impediments to inclusive growth and poverty reduction by creating fiscal space for infrastructure investment and priority social spending. While public debt has risen in recent years, the results of the external debt sustainability analysis (DSA) show that Benin's debt dynamics are sustainable, facing a moderate risk of debt distress.

The operation supports Benin's efforts to strengthen fiscal management; increase agricultural productivity and strengthen the financial viability of the power sector; and improve equitable access to education and health services. The introduction of a Policy Based Guarantee (PBG) as a part of the second operation aims to improve debt management.

Relationship to CPF

DPFs are a key instrument in the World Bank's ongoing policy dialogue with the Government of Benin and its development partners. The Country Partnership Strategy (CPS) for FY13-17 (Report No. 75774-BJ) noted the importance of relying on a combination of development policy and investment operations in order to encourage a coherent approach to supporting structural reforms. The new Country Partnership Framework (CPF) for FY19-FY23 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. 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.

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 and also require a regular and affordable supply of electricity, which is frequently noted as a leading constraint to private sector growth, particularly in the light manufacturing and agricultural processing sectors. The 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.

C. Proposed Development Objective(s)

The proposed operation supports Benin's efforts to strengthen fiscal management; increase agricultural productivity and strengthen the financial viability of the power sector; and improve equitable access to education and health services.

Key Results

The measures supported by this DPF series are expected to strengthen fiscal management; increase agricultural productivity and strengthen the financial viability of the power sector; and improve equitable access to education and health services. The measures supported by the first pillar are expected to strengthen fiscal management by having a positive impact on tax compliance and revenue mobilization and by strengthening human resource management and promoting more efficient wage spending. The measures supported by the second pillar 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 addition, they will strengthen the country's power sector financial viability by increasing the energy utility revenues and reducing arrears in the sector. Finally, the measures supported by the third pillar will 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.

D. Project Description

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.

Increasing agricultural productivity and value addition and strengthening the power sector's financial viability (Pillar 2) is a Government's priority. 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 to 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. As for the power sector, the inconsistent supply of electricity is noted as a leading constraint to private sector growth, particularly in the light manufacturing and agricultural processing sectors. Strengthening the financial viability of the power sector is essential to increase electricity production capacity in a fiscally sustainable manner.

A new third pillar will support to the reforms necessary to improve access to education and health services. This pillar is consistent with the new national development strategy that emphasizes the need to strengthen the delivery of social services with. 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.

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.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Economy and Finance 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. 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.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

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 through stronger fiscal managemnet, improved public spending efficiency and productivity gains as well as job creation in the agricultural and no-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.

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. **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. 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. **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. Furthermore, access to electricity liberates non-paid family time demands, particularly for women and girls, and further increases quality of life and opportunities for investment in human capital, including in girls and women. Increased and more reliable access at affordable prices should also have a significant impact on firm creation, firm growth and resultant employment opportunities, particularly in the higher productivity formal sector. **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. 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. **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.

Environmental Aspects

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 then, will 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.

The prior action of strengthening the financial viability of the power sector is likely to produce climate change mitigation co-benefits since strengthening the financial viability of the sector is likely to promote the development of new energy efficient production capacities. In the agricultural sector, measures intended to diversify agriculture away from a reliance on cotton could have a potentially positive environmental effect as agriculture becomes less mono-culture based and increasingly diversified.

G. Risks and Mitigation

The overall risk level associated with this operation is substantial. Substantial governance, institutional capacity, and macroeconomic risks could adversely impact the PDO. 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.

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APPROVAL

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