PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA52443

Project Name	Benin Cross Border Tourism and Competitiveness Project (P149117)
Region	AFRICA
Country	Benin
Sector(s)	Central government administration (20%), SME Finance (15%), Agro-industry, marketing, and trade (15%), Other domestic and internatio nal trade (15%), General industry and trade sector (35%)
Theme(s)	Other Private Sector Development (80%), Micro, Small and Medium Enterprise support (20%)
Lending Instrument	Investment Project Financing
Project ID	P149117
Borrower(s)	Republic of Benin
Implementing Agency	Ministry in Charge of Development
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	04-Feb-2016
Date PID Approved/Disclosed	06-Feb-2016
Estimated Date of Appraisal Completion	22-Jan-2016
Estimated Date of Board Approval	25-Mar-2016
Appraisal Review Decision (from Decision Note)	The main decisions taken were: a) Subject to incorporations of the Decision Meeting recommendations the Chair authorized the team to continue with preparations towards project appraisal and Negotiation. b) The revised PAD is to be produced and circulated for final approval before project appraisal and negotiation. c) The timeline for project processing, subject to the timing of the decision on project appraisal, remains: - Appraisal, January 18th - Negotiations January 27th 2016.

I. Project Context

Country Context

Benin is a low income country with a per capita income of US$810 in 2014, with output dominated by agriculture and services. The primary sector accounts for over 30 percent of GDP and provides nearly 70 percent of the country’s employment. Cotton is the primary export commodity representing 25 to 40 percent of exports. The transit trade to Nigeria contributes around 20 per cent of Gross Domestic Product (GDP), and 25 per cent of Government revenue. GDP growth over the last two decades averaged 4 percent annually, but began to stagnate in more recent years. The IMF estimates a GDP growth of 5.7 per cent for 2014 on the back of a good harvest of cotton and growing trade activity through the Port of Cotonou, while inflation is moderate at around 1percent.

Current economic growth has so far proven barely sufficient to keep pace with the growing working age population (annual population growth averages 3.2 percent). The official unemployment statistics (defined as “the population actively seeking work”) is rather low, at 1percent according to the World Bank. However, underemployment, defined as involuntary part-time or undertaking a job that one is overqualified for, is high at 55.8 percent. As a result, 43-44 percent of Beninese live below the US$1.25 a day poverty line.

Benin’s economy is largely dependent on rents derived from Nigeria’s trade policy. Building on geographic proximity, strong ethnic and linguistic ties and economic complementarities, Benin took advantage of policy arbitrage opportunities when Nigeria began in 2002 imposing a combination of high import tariffs (up to 50 per cent) and outright import bans on a number of important product groups. As formal imports into Nigeria were severely diminished by restrictions, Benin began to import these same goods and re-export them through informal channels to Nigeria. The informal transit trade today is a significant part of Benin’s economy. While there are winners from the current situation, the informal transit trade actually hampers the modernization of Benin’s economy. The informality of parallel trade spills over to associated services such as transport and other support services, taking a huge portion of the national economy out of the reach of taxes and regulation, and fueling a vicious cycle of informality, distortions, and poverty. The recent DTIS (2015) analysis calls for the need to carefully manage the transition out of the current trade structure, in order to create a more competitive economy in Benin.

The Benin Growth and Poverty Reduction Strategy (GPRS) (2011) recognizes the lack of re-distributional growth as a key challenge and attributes it to the lack of diversification and competitiveness of the economy. The GPRS identifies four priority sectors to boost economic opportunities: agribusiness, textile, commerce & transport services, tourism & handicrafts. An analysis on the Benin-Nigeria trade and investment relationship further stressed the opportunity for broad-based private sector driven development by transforming Benin’s endogenous touristic competitive advantages into serving the growing Nigerian travel and tourism market. Indeed, the tourism and handicraft sector is well suited to address the twin objective of the GPRS – namely growth and redistribution. The sector offers opportunities for investment and jobs with extensive value chains, while job creation opportunities can be found at a wide-range of skill levels. In developing countries, an average of two jobs are created for each hotel room, and each job directly created in tourism can create 4.62 jobs in related areas.

As such, Benin finds a natural comparative advantage in tourism, as well as an actionable entry point for creating value chain linkages especially for Micro Small and Medium Enterprises (MSMEs) and young entrepreneurs.

Sectoral and institutional Context

Tourism is Benin’s second largest source of foreign exchange earnings (after cotton), bringing US $197 million in foreign currency in 2014, directly generating 2.6 percent of GDP, and indirectly contributes to 6.5 percent of GDP, or US$498 million annually. The sector is the country’s third largest employer (after agriculture and commerce). According to the World Economic Forum Travel & Tourism Competitiveness Report, the sector contributes to 5.6 percent of total employment. In 2014, Benin welcomed 194,113 international visitors. Its top three source markets are Nigeria (12.2 percent), France (7.5 percent) and Togo (6.2 percent). The main purpose of these visits was highly skewed towards business and institutional travel, accounting for an estimated 78 percent of visitors.

Opportunities

Although its tourism industry is still in its infancy stage, Benin has three potential markets to explore simultaneously, which reinforce each other in order to help private sector players in the tourism sector to make their business models financially more viable: (i) current MICE visitors who may wish to extend the stay to explore Benin, taking advantage of the proximity of these tourism sites clustered in a compact area around the capital; (ii) Nigerian middle-class leisure tourists looking for a getaway from busy city life in Lagos; and (iii) tourists drawn to the unique cultural offerings of Benin, such as the city of Ouidah, which offers the global cradle of voodoo and one of Africa’s most important slave routes; and Ganvié, which is Africa’s largest stilt-village.

In particular, the opportunity to capture the growing middle-class Nigerian tourism market presents a unique opportunity, as proximity and access to major source markets play a key role in successful tourism development. The potential for continued growth in Nigerian outbound tourism is high: with an estimated population of middle class Nigerians at 40-50 million, it has been growing at a rate of 12 per cent per annum in recent years. According to the Nigerian tourism demand assessment, the target market for Benin is lower-middle class visitors in their 30s, who stay on average 4 nights, and are repeat visitors (2-6 times a year). These visitors value the physical proximity, purchasing power, safety and natural environment. Nigerian tour operators see the highest potential in developing shopping activities, city tours, museums, and cultural tours in this order of importance.

A number of recent developments have improved the prospects to improve the conditions for promoting Nigerian travel to Benin, namely in easing access bottlenecks. The 10-lane Lagos-Badagry expressway with dedicated mass transit lanes and rail link is scheduled for completion in 2016 and will dramatically reduce travel time and the incidence number of checkpoints along the way. In terms of air connectivity, Arik Air is joining Asky Airlines offering frequent direct flights between Lagos and Cotonou, taking 30 minutes with an average airfare of US$70 one-way.

A growing tourism sector would generate direct and indirect economic and development benefits throughout numerous value chains (agriculture and food products, handicrafts, etc.). A research in developing destinations has shown that every dollar spent on tourism can generate US$2.07 down the line. The tourism sector is an important consumer of agricultural products: fresh products (fruit and vegetables, dairies, fish, meat) represent an important share of food expenses of the sector. Based on demand studies conducted, fruits and vegetables lead the tourism establishments’ procurement list accounting, for 56 percent of all foodstuffs purchased in terms of quantity. A large majority of tourists seek local commodities for their superior taste, freshness and local origin. Tapping into this value chain opens a tremendous opportunity for much broader economic impacts. In the Gambia, for example, a program to strengthen links between the fruit and vegetable sector and the tourism industry raised participant household incomes by up to five times.

Other sectors such as crafts and furniture could also benefit from a more vibrant tourism sector. Benin’s crafts industry is large, accounting for 11 per cent of the country’s GDP. It is comprised almost exclusively (98 percent) of MSMEs. Activities are mainly geared toward supplying furniture and building components (e.g., doors, windows) to hotels and restaurants, as well as handicrafts to tourists and travelers. It should be noted that while new hotels often import cheaper mass-produced furniture and building components, local products are sought by tourist-oriented hotels because for aesthetic reasons and longer life span.

Challenges

A well-structured and growing tourism industry and associated value chains could indeed give the Beninese economy a huge multiplier effect in terms of job creation and income generation. However, today, Benin’s tourism sector is not meeting this potential. Tourism arrivals and revenues have stagnated over the past decade with an average annual visitor growth of only 2 per cent, compared to an average 15 percent growth for its neighbors and competitive set. In 2013, the nation counted 935 registered hotels, with 12,763 rooms and 30,022 beds, with a low average occupancy of 29 percent – the number is even lower for MSMEs, in the range of 15-25 percent. When compared to this regional set, Benin has the potential to increase tourism’s direct contribution to GDP by at least 30 per cent and generate an estimated 30,000 more jobs if challenges are addressed.

Benin’s tourism sector difficulties are typical of the vicious cycle faced by nascent and aspiring tourism destinations. Key challenges include: lack of (public and private) product and market development, bottlenecks to private investment stemming from the regulatory environment combined with weak compliance and performance capacity in the private sector, financing constraints, and the absence of an appropriate governance framework to support the private sector led tourism development in the country. The compounded effect of each constraints leads to low tourist arrivals, spending and occupancy rates. The resulting low profitability maintains the underinvestment in tourism products (both physical and human assets) as well as in higher-value linkages with the broader economy (local sourcing). This in turn keeps the tourism offering overall uncompetitive, unable to realize its potential – Benin’s tourism sector competitiveness ranks lowly, at 130 out of 140 countries, according to the 2013 Travel and Tourism Competitiveness Index, released annually by the World Economic Forum. As a result, the country continues to suffer from the slow growth in the number of tourists’ arrival, and low impact of tourism on its economy.

In terms of product and market development, Benin’s main challenge is the urgent rehabilitation, development and management of its touristic assets. Poor access to the sites is stunting the development of tourism clusters. Its tourism destinations lack visitor facilities, interpretation, general maintenance and management that would allow them to act as visitor draws, increasing time and expenditures in the destination. Improvements in tourism cites and roads were ranked among the most critical issues to address in order to draw Nigerians to Benin, according to the aforementioned demand study. In addition, the issue of environmental and social sustainability of tourism development approaches remains unaddressed.

The relatively low level of product and service quality achieved by Benin’s tourism oriented firms constitutes a key constraint to the attractiveness of the sector. The key drivers of firm underperformance include high levels of informality, low levels of managerial and technological capabilities among MSMEs, and difficulties in accessing finance. Also, the regulatory frameworks are outdated and not conducive to ensuring the quality of offerings. As a consequence, hotels, tour operators, transport providers, restaurants and guides remain of insufficient quality and variety. For example, in southern Benin, only 7.5 percent of accommodation providers are classified, and a lengthy and complicated licensing process drives many into informality. The challenge of the service quality is further aggravated by poor skill levels and lack of good management practices. The practice of providing professional business development services (BDS) in Benin is in infancy, compared to some other markets in the sub-region, and employers are dissuaded from making investments in skills upgrading due to the aggressive poaching behavior among competitors, while existing public programs are largely inadequate.

Access to finance is a widely shared constraint throughout the tourism industry and associated value chains in Benin. On the demand side, there are concerns regarding the readiness of MSMEs to be bankable. As mentioned above, many private sector operators lack in the minimum capacity to apply for loans – preparation of documents, business plans, necessary business acumen, etc. Lack of formalization also makes it harder for these operators to qualify for loans. On the supply side, there are constraints of the risk appetite and capacity of financial institutions to deal with MSMEs loans. In Benin's financial sector today, there may be emerging institutions which are willing to roll out financial products for MSMEs: however, these same institutions feel it is still too risky and need for an additional de-risking facility. At the same time, the institutions may not have the up-to-date know-how of developing and managing such financial products, and need further assistance in this regard.

Last but not least, limited exploitation of backward linkages and opportunities from tourism to other sectors means that the sector's contribution to the broader economy significantly underachieves its potential.

Ultimately, unlocking the gap between Benin's tourism sector potential and its current performance requires an integrated program of actions focusing on: (i) strengthening the legal, regulatory and institutional environment for private sector led tourism development; (ii) fostering product and market development; and (iii) providing direct financial and non-financial support to foster investment, jobs, and growth of SMEs in the tourism and related sectors.

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II. Proposed Development Objectives

The project development objective is to contribute to increased cross-border tourism and private sector investment in selected destinations and value chains

III. Project Description

Component Name

Improving Benin's Tourism Development Framework

Comments (optional)

This component aims at making critical improvements to the Investment Climate for private sector development in the tourism sector in Benin, in relation to the objectives of the project.

Component Name

Tourism Destination and Product Development

Comments (optional)

23. The objective of this component is to support the critical elements of tourism products, destinations and services to break the vicious cycle of perpetuating underperformance of the tourism sector in Benin. The component will target the destination of Ouidah as the strategic starting points

of a sequenced development approach. Ouidah is strategically located on the coast, with favorable transport access and linkages to potential demand (proximity to Cotonou, Nigeria and Togo) in Benin's priority area for tourism development. Most importantly, it contains a well-diversified mix of tourism products and sites that are unique to the region, thus setting the groundwork for its sustained competitiveness.

Component Name

Support to SME Upgrading, Linkages and Expansion

Comments (optional)

The objectives of this component are: (i) to improve MSMEs product quality and linkages in tourism and select related value chains; and (ii) to foster growth of tourism and tourism-linked MSMEs through improved access to credit.

Component Name

Project Management

Comments (optional)

Activities will support the establishment and operations of a project implementing unit (see details in institutional arrangement section) through the financing of equipment, consultant compensation, operating costs, organizational budgets, monitoring and evaluation, systems development, training and communication, capacity building, and technical assistance.

Component Name

Contingency

Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	50.00
Total	50.00

V. Implementation

Implementation arrangements feature several players whose roles will be further detailed in the Project Implementation Manual, the elaboration and approval of which will be a condition of effectiveness. These arrangements take into consideration capacity limitations in Government and existing relevant agencies. They build on similar successful projects in Benin.

The Government authorities designated the Ministry of Development, Economic Analysis and Prospective (MDEAP) as the implementing agency of the project. Project implementation arrangements include the following structures:

A two level Project Steering Committee (PSC) comprising:

i) Strategic Committee (SC) established to provide overall strategic, oversight and guidance on project implementation and will review and approve work plans and budget, and serve as ultimate instance to solve potential impasses that may arise with respect to specific reforms and strategic decisions.. The SC will be chaired by the Minister of Development, Economic Analysis and Prospective, and will include: (i) Minister of Tourism, (ii) the Minister of Finance, the Minister of Agriculture, the Minister of Urbanism, the Minister of Industry and Commerce, the Minister of the interior, the Minister of Public Works, the Minister of the environment; (ii) the Mayors of Cotonou, Ouidah and Calavi; President of the CNP, President of the Chamber of Commerce. The SC will meet every six months.

ii) Technical Committee (TC) established under the SC to supervise project implementation (e. g. ensuring that implementation is in line with the objectives and scope of the project; ensuring that the annual work plan to achieve the project objectives is within the agreed time frame and budget; and managing risks and issues that arise during the project implementation.) The committee will be chaired by the Permanent Secretary of the Ministry of Tourism, and will comprise representatives of the Ministries and Municipalities in the PSC and representatives of the national council of the hotel industry (Conseil National des Industries hôtelières du Bénin - CONIHB), the association of tourism operator (Association des Opérateurs Privés Touristiques du Bénin - ANOPRITOB), the association of hotel industry professionals (Association des Professionnels de l'Industrie Hôtelier du Bénin - APIHB) and the association of travel agents (Association des Agences de Tourisme et Voyage - ATOV). The TC will meet on a quarterly basis and ad hoc as needed.

Project Implementation Unit (PIU). The PIU will be housed in the MDEAP and will comprised a dedicated and competitively recruited staff headed by a Project Coordinator (PC) and consist of a Procurement Officer, a Financial Management Officer, an Accountant, an M&E Specialist, a Tourism Specialist, a Private Sector Development Specialist, a Civil Engineer, an Environmental and Social expert and support staff. The PIU will be responsible for all procurement, disbursement, accounting and financial management, monitoring and evaluation, reporting project progress and for ensuring the auditing of project accounts. The Project Coordinator will report to the PSC at least once every quarter on the progress achieved, highlight implementation issues and challenges and seek guidance and direction from the PSC on project implementation. The PIU will function as the Secretariat to the PSC. The Project Coordinator will also report to the Technical Committee.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	✕	
Natural Habitats OP/BP 4.04	✕	
Forests OP/BP 4.36		✕
Pest Management OP 4.09	✕	
Physical Cultural Resources OP/BP 4.11	✕	
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12	✕	
Safety of Dams OP/BP 4.37		✕
Projects on International Waterways OP/BP 7.50		✕
Projects in Disputed Areas OP/BP 7.60		✕

Comments (optional)

VII. Contact point

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