Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jul-2020| Report No: PIDC28565

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Benin	P172749	Benin 2nd Fiscal Management and Structural Transformation DPO (P172749)	P168668
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA WEST	Nov 17, 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

Total Financing	100.00

DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The proposed Development Policy Operation (DPO) supports Benin's efforts to create fiscal space and bolster the structural transformation of the economy.** It is the second of two single-tranche DPOs in a programmatic series. The first operation (DPO1) was approved by the Board on December 12, 2019. It was augmented with a Supplemental Financing approved on June 26, 2020, as part of the World Bank rapid response to help Benin deal with the COVID-19 pandemic and its negative consequences. The proposed Second Fiscal Management and Structural Transformation DPO (DPO2) combines an IDA Credit of EUR XX million (US$50.0 million equivalent) and IDA Grant SDR XX million (US$50.0

million equivalent). The Program Development Objective (PDO) is (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. These areas lay the foundation for sustained and resilient economic growth.

2. **During the last three years, Benin has been one of the fastest growing economies in sub-Saharan Africa (SSA); it is supported by a strong program of reforms and commitment to fiscal discipline.** Real GDP growth averaged 6.4 percent between 2017 and 2019 (3.6 percent on per capita terms) due to strong cotton exports, growth in services and construction, and private-sector investment. Foreign Direct Investment (FDI) increased from 1.0 to 1.3 percent of GDP during this period. High growth has allowed poverty to decline from 49.5 percent in 2015 (US$1.9/day, 2011 PPP) to an estimated 45.4 percent in 2019. This successful growth spell was supported by the government's commitment to fiscal discipline under an IMF Extended-Credit Facility (ECF) (2017-2019) that anchored the macroeconomic framework, as well as the country's medium-term development strategy. Since 2016, the authorities oriented the development strategy toward the acceleration of structural transformation and the enabling of private-sector development. Initial reforms focused on improving the business climate, strengthening governance and fiscal management, and enhancing social service delivery. This DPO series supports the most recent priorities of the Government Action Plan 2016–2021 (GAP), notably the promotion of investments in competitive sectors.

3. **As the COVID-19 crisis unfolds, recent economic and social gains are at risk.** Although Benin's growth potential is high,[1] economic activity is projected to decelerate strongly as a result of the COVID-19 pandemic and the border closure with Nigeria.[2] Real GDP growth will more than halve from pre-COVID-19 projections to 2.2 percent in 2020 as the country is hit by lower external demand and commodity prices as well as tighter financing conditions. Containment and mitigation measures are impacting commerce, transport, and hospitality-related activities, adding to the external pressure and reducing domestic demand. Poverty reduction is expected to stall as real GDP per capita shrinks (-0.5 percent). The crisis exposes and aggravates some vulnerabilities of Benin's growth model.

4. **The macroeconomic policy framework is adequate for the proposed operation.** The medium-term outlook is broadly positive with the economy expected to gradually recover once the crisis recedes, driven by a robust return of private consumption and rapidly growing investment. The government is committed to reverting to the 3 percent fiscal deficit of the West African Economic and Monetary Union (WAEMU) convergence criterion by 2021. Public debt is sustainable and the risk of overall and external debt distress is moderate. Since 2016, the government has demonstrated a strong track record of prudent macroeconomic policy that has enabled the country to achieve high economic growth and macroeconomic stability. Monetary and exchange rate policies are anchored in Benin's membership of the West Africa Economic and Monetary Union (WAEMU).

Relationship to CPF

5. **The structural reform agenda supported by the DPO series addresses some of the main bottlenecks to inclusive growth.** By focusing on the above-mentioned PDO, the series selectively addresses three binding constraints to economic and productivity growth identified in the 2017 Systematic Country Diagnostic (SCD)[3]: scarce public resources, low competitiveness, and infrastructure constraints, notably low access to electricity and information and communications technology (ICT) services. Addressing these constraints is the basis to diversify the economy and reduce the vulnerability to external shocks. They fall within the first focus area of the FY19-FY23 Country Partnership Framework (CPF), *Structural*

[1] Potential growth rate is estimated at 6.7 percent (IMF 2019 Article IV Report).
[2] Nigeria, one of Benin's main economic partners (40 percent of total exports in 2018), closed its land border in August 2019 severely impacting informal trade (including re-export) and tax revenue collection.
[3] Report No. 114822-BJ

transformation for Competitiveness and Productivity, complemented by Investment Project Financing (IPF) in energy and ICT. Further, the series is well aligned with the fourth pillar of the WBG COVID-19 Crisis Response Approach Paper.

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

6. **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). Direct and Indirect Tax revenue to GDP is expected to rise despite the external shock of COVID-19. 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. Concept Description

7. **The structural reform agenda supported by the DPO series has become all the more important to ensure economic recovery and protect the future.** The DPO series was designed to address long-term challenges but have now also become a cornerstone of the medium-term policy response to the COVID-19 crisis. By contributing to macroeconomic stability and promoting investment in competitive sectors, the series supports a private sector-led economic recovery capable of creating higher-productivity formal jobs. The World Bank Supplemental Financing (P174008) has allowed the government more time and resources to continue working on the structural reform agenda, and significant progress has been achieved. The series' three pillars are as follows:

- **Pillar 1** strengthens debt management and enhances domestic revenue mobilization to create fiscal space, increase the tax base and promote debt transparency. As fiscal consolidation is expected in the next few years to reign in the additional outlays in response to COVID-19, additional revenue will be essential to ensure fiscal sustainability with adequate levels of productive and pro-poor public spending. Strong fiscal and debt management is in agreement with the Sustainable Development Finance Policy (SDFP) and provide the basis for macroeconomic stability needed for a competitive economy. Consistent with the DPO objectives, the fiscal response linked to COVID-19 is temporary, targeted and does not hamper future fiscal consolidation efforts.
- **Pillar 2** improves the financial sustainability of the electricity sector, promotes the development of clean energy sources and private-sector participation in the sector. These are key to ensure a sustainable State-Owned-Enterprise (SOE) that does not become a contingent liability. Further, affordable access to electricity and a competitive energy sector are the backbone for inclusive growth and a competitive private sector-led growth model.
- **Pillar 3** lays the foundations for the development of a competitive, secure and accessible digital sector. Fostering the development of the digital economy is at the center for enhancing productivity and diversifying the economy. The reforms are anchored on the DE4A initiative, which is supporting the operationalization of the 2019 African Union's Digital Transformation Strategy for Africa.

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

Poverty and Social Impacts

8. **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 debt, 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.

Environmental, Forests, and Other Natural Resource Aspects

9. **The policies supported by this DPO are not expected to have negative effects on Benin's environment, forests, water resources, habitats, or other natural resources.**

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APPROVAL

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